

MULTINATIONAL CORPORATIONS AND UNITED STATES FOREIGN POLICY

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
MULTINATIONAL CORPORATIONS
OF THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE
NINETY-FOURTH CONGRESS
FIRST SESSION
ON
POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

MAY 16 AND 19; JUNE 9 AND 10; JULY 16 AND 17; AND
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POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

Gulf Oil Corp.

FRIDAY, MAY 16, 1975

**UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.**

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 4221, Dirksen Senate Office Building, Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Symington, Clark, Case, and Percy.
Senator CHURCH. The hearing will please come to order.

OPENING STATEMENT OF SENATOR CHURCH

In the course of the Watergate Committee hearings and the investigation by the Special Prosecutor, it became apparent that major American corporations had made illegal political contributions in the United States. More recently, the Securities Exchange Commission has revealed that several multinational corporations had failed to report to their shareholders millions of dollars of offshore payments in violation of the Securities laws of the United States. The Gulf Oil Corporation, before us today, has admitted making \$4.8 million in domestic political contributions and at least \$4.3 million in overseas political payments.

The Securities and Exchange Commission is understandably concerned that the disclosure requirements of U.S. laws are complied with. This subcommittee is concerned with the foreign policy consequences of these payments by U.S.-based multinational corporations.

This is not a pleasant or easy subject for the corporations involved or U.S. Government officials to discuss in a public forum. This subcommittee deliberated long and hard as to whether it should pursue this matter, and, if so, in what fashion. It decided by a unanimous vote to initiate this investigation and to do so in open public hearings. For what we are concerned with is not a question of private or public morality. What concerns us here is a major issue of foreign policy for the United States.

No one has put it more succinctly than Gunnar Myrdal in his brilliant book, "Asian Drama." Describing what he calls the "soft state," Myrdal writes:

Generally speaking, the habitual practice of bribery and dishonesty tends to pave the way for an authoritarian regime, whose disclosures of corrupt practices

in the preceding government and whose punitive action against offenders provide a basis for its initial acceptance by the articulate strata of the populations. The Communists maintain that corruption is bred by capitalism, and with considerable justification they pride themselves on its eradication under a Communist regime.

The elimination of corrupt practices has also been advanced as the main justification for military takeovers. Should the new regime be unsuccessful in its attempt to eradicate corruption, its failure will prepare the ground for a new putsch of some sort. Thus, it is obvious that the extent of corruption has a direct bearing on the stability of governments.

It follows that, if a substantial number of multinational corporations bribe or attempt to gain influence through huge campaign contributions or agent's fees which find their way into the hands of foreign government officials, these very corporations may, in the long run, be the losers. Eventually, indigenous forces of reform or revolution will turn on these companies and make them the targets of radical measures.

Furthermore, illicit corporate contributions, bribes, and payoffs create unfair conditions for scrupulous competitors. Foreign officials looking for money are unconcerned about the quality of the product or service being offered. The company which slips the most under the table will get the most favored treatment.

Under such circumstances, a company which tries to maintain higher ethical standards finds itself up against the unfair competition of companies that resort to large-scale bribery. Ethical corporations will be squeezed out of many foreign markets and even the unethical firms will find their profits diminished.

Thus, we must know from our witnesses here today what were the circumstances which led them to make these payments. In what country were they made? Were they illegal in the country in which they were made? If the corporation was reluctant, did it bring the matter to the attention of the U.S. Embassy? If not, why not? Does the United States have a foreign assistance program in the country in which the payment was made? Was the company's investment in the country guaranteed, in whole or in part, by our Government's Overseas Private Investment Corporation? Was the U.S. Embassy aware of such payments? If not, why not?

Finally, this subcommittee will consider what legislation, if any, is warranted. Much has been written about codes of conduct governing multinational corporations. Many of the issues—transfer prices, expropriation—are complex and controversial. But there should be no controversy about this issue: if the developing countries are sincere in their desire to define acceptable rules of conduct for multinational corporations, then they should be willing to agree that corporations that do business in their country should be free from extortion. The corporations, if they are serious about wanting the rules of the game defined, should be willing to agree that they will refrain from making questionable payments to obtain competitive advantages. And the administration, if it is genuinely concerned about this problem, ought to take the lead in seeking a consensus around these elementary propositions.

In short, we cannot close our eyes to this problem. It is no longer sufficient to simply sigh and say that is the way business is done. It is time to treat the issue for what it is: a serious foreign policy problem.

Now, our first witness this morning is Mr. Dorsey. Before we turn

to him, both Senator Case, our ranking Republican on the subcommittee, and Senator Clark, are here, and I turn first to Senator Case if he has any comment he would like to make.

COMMENTS OF SENATOR CASE

Senator CASE. I do not think so. We are dealing with a matter that has been baffling to businessmen and administrations for many generations, and if we can come somewhat closer to a satisfactory solution I think we will have accomplished some great value, and I think this is our responsibility.

Senator CHURCH. Thank you very much.
Senator Clark.

COMMENTS OF SENATOR CLARK

Senator CLARK. Mr. Chairman, let me say at the outset that I completely agree with the points that you have raised in your opening statement, especially your concern for the honest American businessman who refuses to make the kind of payments which we are discussing here this morning.

It is truly unfortunate that the competition for given markets or given raw materials turns on the question of who is paying whom rather than how good a job an individual company can perform.

There is one additional matter which I would like to emphasize at the outset before the witnesses begin, the careful manner in which this subcommittee has consulted with the executive branch, and particularly with the State Department throughout this investigation.

On April 23, Under Secretary of State Charles Robinson, testified before the subcommittee. I would like to quote a part of his statement because I think it represents an extremely well-reasoned position on this subject.

"The Department of State cannot and does not countenance illegal activity by U.S. enterprises abroad. We have had occasion to take a stand on the question of illegal payments to foreign officials recently, and I would like to reiterate our position before this committee. The United States condemns such actions by U.S. corporations in the strongest terms. They complicate our relations with friendly foreign governments and make it more difficult for the United States to assist other U.S. firms in the lawful pursuit of their legitimate business interests abroad."

That is the State Department.

At no time has any representative of the Department of State suggested to this subcommittee that an investigation of these matters would be unwise or would in any way impair the foreign policy objectives of the United States, and I see no basis for anyone making such an allegation.

Indeed, as Secretary Robinson has said, it is the payments themselves which complicate our foreign policy and which pose problems in our relations with other countries. This is especially true when bribery and corruption erupt on such a scale as to undermine the stability of a government.

Now, among the many cases of the tragedy in Vietnam was the corruption of the Thieu regime and its inability to credibly articulate the

wishes of the majority of the Vietnamese not privy to the inner circle of influence and power. This is, therefore, an important inquiry, I believe, Mr. Chairman, and one which certainly deserves our fullest attention and efforts.

Thank you.

THE EXECUTIVE SESSION OF THE SUBCOMMITTEE

Senator CHURCH. Thank you very much, Senator Clark.

I am pleased that you saw fit to allude to the fact that this subcommittee has first considered the subject of this inquiry in executive session and we have had the benefit of the testimony of the State Department with respect to it.

I commend you for having read into the record the statement of the official position of the U.S. Government on the questions that we will explore in the course of the hearing.

Our first witness is Mr. B. R. Dorsey, chairman of the board of Gulf Oil Corp., and he will be accompanied by counsel.

Mr. Dorsey, if you will come forward with counsel and please identify the counsel for the record.

Mr. SEAMANS. My name is Frank Seamans from Pittsburgh. I am accompanying Mr. Dorsey and Mr. Merle Minks, general counsel of Gulf Oil Corp.

Senator CHURCH. Both of you gentlemen will be acting in the capacity as counsel for the witness?

Mr. SEAMANS. That is right.

Senator CHURCH. Do you swear that all the testimony you give this subcommittee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF B. R. DORSEY, CHAIRMAN OF THE BOARD, GULF OIL CORP., ACCOMPANIED BY FRANK L. SEAMANS, ATTORNEY AT LAW, AND MERLE E. MINKS, GENERAL COUNSEL, GULF OIL CORP.

Mr. DORSEY. I do.

Senator CHURCH. Mr. Levinson, our chief counsel, will commence with questions.

Mr. SEAMANS. Mr. Levinson, Mr. Dorsey does have a short statement he would like to make, if you please.

Senator CHURCH. Very well.

Mr. DORSEY. Mr. Chairman and Senators—

Mr. LEVINSON. Do you have copies of your statement?

Mr. DORSEY. Yes.

Senator CHURCH. Before you begin with the statement, may we have copies?

Mr. DORSEY. Mr. Chairman and Senators, I wish to make a statement which I believe will clarify a number of the questions in your minds and assist you in the conduct of your inquiry. With your permission, I should also like to set forth my views as to the legislative action which the Congress may wish to consider as a result of your findings. Before I deal with certain substantive aspects of what I understand to be the parameters of your study, I have some prefatory observations which I believe are relevant to this hearing.

CONTRIBUTIONS TO THE PRESIDENTIAL CAMPAIGN

In July of 1973, the then Special Watergate Prosecutor, Mr. Archibald Cox, called upon all companies which had made illegal contributions in connection with the 1972 U.S. Presidential campaign to come forward in their own and the public's interest and to disclose such contributions. Just about the time of Mr. Cox's statement, I learned, for the first time, that our then Washington Vice President had made certain contributions to the Committee to Re-Elect the President. I issued instructions that these be reported to the Special Prosecutor and that full cooperation be accorded to him. At the same time, I directed that such contributions be publicly disclosed.

SPECIAL MEETING OF THE BOARD OF DIRECTORS

On August 1, 1973, a special meeting of the board of directors of the company was convened to consider the contributions which had been made. At that meeting the board of directors directed the outside law firm of Eckert, Seamans, Cherin and Mellott to investigate the facts surrounding those contributions and to report its findings to the board. As this investigation continued, it became apparent that more was involved than simply the contributions made to the 1972 Presidential campaign. As a result of the investigation, the board of directors of the company was subsequently advised that during the period of 1960 to July 1973, approximately \$10.3 million of corporate funds had been used for various political contributions or related political purposes, of which approximately \$5 million were used abroad.

I should like to note that my fellow directors at Gulf and I have been agonizing about this problem since the initial disclosure in 1973. In my more than 30 years with the company, I know of no issue or circumstance that has caused us more grief, concern, and remorse than has the matter of these contributions. I can assure you we take this problem most seriously and we share the deep concern of our shareholders and the public. Since the summer of 1973, our directors have sought a constructive solution to this problem which would redound to the best interests of the company, its shareholders, and the country itself.

INVESTIGATIONS OF GULF'S ACTIVITIES

From the time of the initial disclosure in July of 1973, we have become involved in a number and variety of investigations. We have been, or are being, investigated by the Special Prosecutor's office, the Securities and Exchange Commission, the Internal Revenue Service, the Eckert, Seamans firm, a special review committee, and by this Senate committee. In addition, third party lawsuits have been filed and are currently pending.

While all of Gulf's activities in the area of contributions are being studied, I will address myself today to the approximately \$5 million which we distributed overseas, and which is the particular interest of this committee.

I appeared and gave sworn testimony to the Securities and Exchange Commission on February 28, and to an executive session of this committee on April 18. At each appearance I made an urgent plea that I not be required to disclose the names of the country or countries to which contributions had been sent. You will recall that,

in this committee, we discussed at great length the question of \$4 million in contributions in one particular country. I pointed out that we had hundreds of millions of dollars invested in that country; that the country and its leaders were allies of the United States and that the political party to whom we had made the contributions was still in power.

ASSURANCES OF CONFIDENTIALITY BY THE SEC

I wish to point out that the record of my testimony before the Securities and Exchange Commission on page 4—at the very beginning of the proceedings—quotes the interrogator as follows—and I quote:

At this point in the proceedings I would like to make a statement for the record that the reporter and both of the Securities and Exchange Commission staff members are sworn to rules of confidentiality of this matter and that all parties understand the import of this.

End of quote.

I had similar assurances with respect to the confidentiality of the executive session of this committee on April 18 and I was advised that an executive session is precisely that, and that only in the event there were any subsequent public hearings would my testimony be public.

THE WALL STREET JOURNAL STORY OF MAY 2, 1975

Notwithstanding these assurances, given by two distinguished branches of the Government of the United States, the Wall Street Journal of May 2—exactly 2 weeks after I testified before this committee, and 8 weeks after I testified before the Securities and Exchange Commission, quoted from my SEC testimony in precise detail. The Wall Street Journal was not merely told of this confidential testimony, but actually had access to a transcript, because an error in the Securities and Exchange Commission transcript where I had said several hundred million dollars, and where I was incorrectly quoted as having said \$700 million, appears in the Wall Street Journal as \$700 million.

Senator CHURCH. May I just interrupt at this point, Mr. Dorsey, so that everyone understands.

GULF'S TESTIMONY IN EXECUTIVE SESSION BEFORE THE SUBCOMMITTEE

You had an executive session before this subcommittee, and although I have not read further in your statement, I think it is time we asked the question. You are not charging that anything that transpired in our subcommittee or the transcript of the proceedings in our subcommittee were carried in the press or that there was any breach of faith where our subcommittee is concerned?

Mr. DORSEY. Mr. Chairman, I am simply reciting the facts.

Senator CHURCH. The facts as you have recited them have to do with testimony that was given before the Securities and Exchange Commission which later appeared in the press, is that correct?

Mr. DORSEY. Yes.

Senator CHURCH. Very well.

DISREGARD FOR CONFIDENTIALITY

Mr. DORSEY. This callous disregard of confidentiality has placed my company in an untenable situation in almost 70 countries around the world. The Wall Street Journal speculated as to where Gulf might have investments of \$700 million and the consequences of these irresponsible inferences have been disastrous to the company and, I believe, seriously detrimental to our Nation. Venezuela undertook a congressional investigation and threatened to shut us down if we did not exonerate them within 48 hours.

I might add in Venezuela we were in the middle of some extremely sensitive negotiations trying to recover whatever we can out of nationalization in that country.

Ecuador similarly launched a massive investigation to determine if any of her officials had been the recipients of money from Gulf.

Peru has expropriated our assets. Our managers and partners all over the world have told us that their positions have been severely prejudiced and that our very status could be threatened. We must, of course, accept our full share of responsibility for this situation, but the breach of confidence by someone in the U.S. Government, pending a comprehensive report which would put the entire matter in full perspective, has gravely exacerbated the problems.

THE REVIEW COMMITTEE

As you know, we had stipulated with the Securities and Exchange Commission and with Judge Sirica in the District Court here in Washington to appoint a review committee to be comprised of two outside directors of Gulf, Messrs. Nathan Pearson and Beverley Matthews, and to designate as chairman, Mr. John McCloy, who has a long and distinguished record in public service. The composition of this committee, as I have noted, was approved by the SEC. That committee has the responsibility to undertake a full review of the investigation made on behalf of the company into the use of corporate funds for political activity and to undertake such other and further investigation as the committee may deem essential or necessary in order to render a complete report.

The review committee has employed independent counsel and independent accountants to assist and advise it. The committee has been organized, fully staffed and has been actively engaged in carrying out its assignment. I have repeatedly pointed out that since the full report of the committee would be presented to the SEC, the court, the board of directors and your committee, that any one of these agencies or bodies—as well as the review committee itself—could make it public, and undoubtedly will.

Under the circumstances, I had no alternative but to decline to respond to inquiries from the press, or even from shareholders, notwithstanding the zeal and persistence of some very determined reporters, because I was instructed that my doing so would be prejudicial to the work of the review committee.

THE CONSEQUENCES OF DISCLOSURE

Gentlemen, the consequences of the publication of a confidential examination by an official body of our Government has forced me to make an untimely disclosure about our foreign contributions.

I will make this disclosure not without trepidation. I do so with apologies to Mr. McCloy and his committee for preempting their investigation and discussing, at this time, a significant aspect of their work.

But I have no choice.

There are approximately 70 countries in which we do business. In fairness to them—and in order to put an end to additional destructive speculation—I requested that the foreign phase of the ongoing investigation be accelerated. I will be completely candid with you.

CONTRIBUTIONS TO REPUBLIC OF KOREA

Initially, I will address myself to the \$4 million in political contributions with respect to which I testified during my appearance before you in executive session on April 18. The recipient of those contributions was the Democratic Republican Party of the Republic of Korea.

CIRCUMSTANCES OF CONTRIBUTIONS

Before I detail the circumstances and amounts of these remittances, there are certain observations which I feel must be made and placed upon this record and before the American people.

There is no universal ethical absolute.

In the course of your responsibilities as U.S. Senators, most of you have traveled all around the world. You know that mores, customs, standards, values, principles, and attitudes vary all over the world. What is immoral to some, is perfectly correct to others. What is onerous to one culture, may be perfectly proper and decent to another. What is unacceptable in one society, may be the norm in another.

One truth is uniform. The United States neither exists nor grew to its position of strength by building a wall around its borders and isolating itself from the rest of the world. We depend upon other nations for raw materials and for markets. Both of these are essential to the employment, prosperity, progress, and growth of our country. Numerous American companies operate in many foreign countries. We not only function in these countries through the suffering of the respective leaderships, but we are in constant competition with other technological powers who seek these same resources and markets.

And we are sometimes subject—as we were in the case of the Republic of Korea—to political pressures which we cannot always successfully resist. These pressures were even more intense than those to which many American corporations were subjected in the traumatic and scarring 1972 American Presidential election.

From the vantage of hindsight, and sitting as I am in the witness chair, I seriously question whether my judgment as to these contribu-

tions was sound or correct. I felt at the time, and under the pressure applied that I had taken the right course in order to preserve our investment and our shareholders' interests. But irrespective of the propriety of my action, what is done is done. And there remains nothing that I can now do other than to report to you and to the American people exactly what was done and how and why it was done.

The responsibility is mine and I accept it. I regret that these decisions have brought pain to the distinguished board of directors with whom I am privileged to serve; embarrassment to the stockholders of my company for whom I am proud to work, and anguish to the many people whom we employ and with whom we do business all around the world. This is a sorrowful chapter in Gulf's long and otherwise productive and constructive history of achievement.

THE \$4 MILLION CONTRIBUTION TO THE REPUBLIC OF KOREA

Let us return, now, to the \$4 million in political contributions which were made to the Democratic Republican Party of the Republic of Korea. That amount represented two separate political contributions, each in connection with a forthcoming national election. The first contribution was in 1966, in the amount of \$1 million and the second, in 1970, in the amount of \$3 million.

As you all know, following the Korean conflict, the Republic of Korea went through a period of economic and political strife. This struggle was still continuing when Gulf was asked to participate in the ownership of a substantial industrial facility in Korea, which represented the largest foreign private investment in that country.

This came about with the encouragement of the U.S. Government. Korea was given assistance through AID loans, to participate in joint ventures with Gulf, and our Government, through OPIC, provided insurance for our investments in Korea in order to further encourage our participation.

At the same time, the U.S. Government had urged that Korea fully establish itself as a democratic society by holding national elections similar to the election process in this country. Faced with a multi-party political system, the Koreans either quickly recognized, or took advantage of the need to raise substantial funds in order to conduct national elections. The leaders of the governing political party in South Korea determined that this could be accomplished by exerting severe pressure for campaign contributions, on foreign companies operating there.

It was this background that gave rise to the demand, in 1966, that the company make a substantial contribution to the campaign of the Democratic Republican Party, which was then and still is the ruling party in South Korea. Our investigation indicates that the demand was made by high party officials and was accompanied by pressure which left little to the imagination as to what would occur if the company would choose to turn its back on the request. At that time the company had already made a huge investment in Korea. We were expanding and were faced with a myriad of problems which often confront American corporations in foreign countries. I carefully weighed the demand for a contribution in that light, and my decision to make the contribution of \$1 million was based upon what I sincerely con-

sidered to be in the best interests of the company and its shareholders.

In connection with the 1971 national election, the pressure for a political contribution intensified considerably. Officials of the Democratic Republican Party insisted that the company contribute \$10 million. This request was transmitted to the company's area manager in Korea by Mr. S. K. Kim, who was financial chairman of the Democratic Republican Party, as he had been in 1966. I was advised in Pittsburgh of the request. A short while thereafter I had occasion to be in Korea and witnessed, first hand, the pressure being exerted by officials of the Democratic Republican Party. At that time I had heated discussions with officials of the party and flatly rejected both the intensity of the pressure being applied, and the amount demanded. In response to my position, the \$10 million request was subsequently changed to \$3 million, to which I acquiesced, believing that the contribution would be in the best interest of the company.

Although each of the contributions came from company funds in the United States, the transfers were recorded as an advance to Bahamas Exploration Co. Ltd., where they reflected on the books and records of Bahamas Exploration Co., as an expense.

VIOLATION OF KOREAN STATUTE

I would like to make it clear, that insofar as I was concerned, both payments to the Democratic Republican Party of the Republic of Korea represented political contributions to that party. To my knowledge the company never asked for nor received anything in return for the contributions except, perhaps, the unfettered right to continue in business. I believed, at the time, that such contributions were both proper and legal under both American and Korean law. I have recently been advised that they were, in fact, in violation of a Korean statute.

OTHER TRANSACTIONS INVOLVING KOREA

In addition to the contributions which I have just described, there were several other transactions involving Korea which recently came to light and which the review committee is investigating. There is every indication that these transactions do not even remotely approach the magnitude of \$4 million, and may ultimately be determined to be funds paid in connection with perfectly proper and lawful commercial transactions.

In addition, we recently became aware of a small amount of funds that was kept in a special account in Korea during the years 1972 through 1974. These funds represented amounts paid, under a common practice of banks in Korea, as additional interest for the deposits in these banks. Since the banks do not reflect these payments on their books, they require the recipients likewise not to do so. Rather than forgo the payments, the company personnel in Korea apparently maintained the funds in a special off-balance sheet, but fully documented account. These funds were used, from time to time, for payment to off-duty police to provide needed security for the company's facilities, and for other purposes. This fund will be likewise the subject of investigation by the review committee.

Now, as to additional foreign contributions.

BOLIVIAN CONTRIBUTIONS

There were three instances of political contributions made in Bolivia. The first such involved the lease and subsequent purchase of a helicopter for the late General Rene Barrientos, who became President of Bolivia in 1966. During that year, and while General Barrientos was campaigning for the Presidency, the company was urged to make a helicopter available for his use and the lease payments during a short period of time were paid for by the company. When the lease expired, General Barrientos, who in the meantime had been elected to the Presidency of Bolivia, insisted on the continued use of the helicopter. In response to continuing pressure, we worked out an arrangement with the manufacturer of the helicopter whereby it was purchased for General Barrientos. The amount involved, both with respect to the lease payments and the purchase price, was approximately \$110,000. This payment was made from checks drawn on a bank account maintained by Bahamas Exploration Co.

There are two other instances whereby, following a demand by General Barrientos, corporate funds were given to members of his political party. I do not have precise details regarding these payments, and the matter currently is being investigated by the review committee. However, it seems that the first payment was in the apparent amount of \$240,000 and the second payment was \$110,000. At this stage of the investigation, I am unable to report to you the circumstances giving rise to this transfer, but I am confident that details will be forthcoming. As in the case of the payments made to Korea, each of these payments was recorded as an advance to Bahamas Exploration Co. and reflected on the books and records of that subsidiary as an expense.

FUNDS FOR THE PUBLIC EDUCATION PROGRAM RE ARAB/ISRAELI DISPUTES

A further charge in the amount of \$50,000 also appears in the books and records of Bahamas Exploration Co. in 1970. Here again, the payment is being investigated by the review committee, but it appears that the amount was made available through the First National City Bank, Beirut, Lebanon, for the purpose of helping to defray the expenses of a public education program endeavoring to bring about a better understanding in America of the Arab-Israeli conflict.

FUNDS INVOLVING ITALY

Beyond what I have attempted to describe in some detail, I would also like to point out that in early 1975, and as a result of the implementation of stricter controls and procedures adopted by the company, our independent certified public accountants disclosed certain areas of inquiry which may indicate further use of corporate funds for political purposes abroad. Since that disclosure, the review committee and the company have been actively engaged in an investigation of the matters to determine whether or not there was any impropriety. I would hope that this committee would bear with us while this investigation is continuing so that reliable information can be offered to you rather than to engage in speculation. I will say that some of these expenditures involve Italy. However, I do respectfully request that in

all fairness, the investigation should be permitted to proceed so that reliable information can be obtained, and informal judgments reached, rather than to engage in premature conjecture at this time.

THE BAHAMAS EXPLORATION CO.

Gentlemen, you have heard much about the Bahamas Exploration Co. I wish to emphasize that none of the members of the Gulf board had any knowledge that it was used to transmit political contributions and related expenses. The board first learned about it sometime after July 1973, and I will now tell you what that is about and how it worked.

Bahamas Exploration Co. was incorporated in 1944 and was organized to acquire exploration licenses in that area of the world. Although it was determined later that there was little expectation of finding crude oil in the Bahamas, the company continued to hold the exploration licenses.

Our investigation discloses that starting in 1960, Bahamas Exploration Co. was used—for bookkeeping and accounting purposes—to transfer funds for use as contributions, gifts, entertainment, and other expenses in the United States. The funds were transmitted to a bank account established in the name of Bahamas Exploration in Nassau, Bahamas. The total amount of funds deposited from 1960 through December 31, 1972, was \$5,201,798.96.

The funds transmitted to Bahamas Exploration were deposited in the bank account and entered as deferred charge which was written off as expenses during the current year. The transfers, which initially were in the form of intercompany advances, were treated as capital contributions to Bahamas Exploration by Gulf.

PAYMENTS FOR HELICOPTER

With the exception of approximately \$110,000, it appears that all of the money deposited in and withdrawn from the Nassau bank account during this entire period was used in the United States. This \$110,000 was withdrawn by four checks made payable to Fairchild Hiller Corp., for the lease and purchase of the helicopter of which I told you earlier.

Except for the helicopter, the funds which were used for contributions, gifts, entertainment or other expenses abroad were recorded on Bahamas Exploration's books merely for accounting purposes. The moneys were never deposited in the Nassau bank. Again, the foreign transfers were treated as an advance, reflected as deferred charges and expenses on Bahamas Exploration's records and treated as capital contributions by Gulf.

THE REPORT OF THE SPECIAL REVIEW COMMITTEE

Mr. Chairman and Senators, the special review committee has undertaken to file with the Securities and Exchange Commission and the court, a full report and it will be made available immediately upon its completion. The report, we expect, will fill in the gaps and complete the inquiry. We ask that you bear with us until it is available.

You have our complete assurance that every effort is being made to prevent any recurrences of these activities. We are taking very stringent measures—all possible steps—to assure that this will never happen again. The harsh lessons we have learned are indelibly etched in our minds. They will fortify our determination and commitment. This is the ultimate control.

RECOMMENDATIONS FOR LEGISLATION

But you can help us, and many other multinational companies which are confronted with this problem, by enacting legislation which would outlaw any foreign contribution by an American company. Such a statute on our books would make it easier to resist the very intense pressures which are placed upon us from time to time. If we could cite our law which says that we just may not do it, we would be in a better position to resist these pressures and to refuse the requests.

Gulf has been an important factor in the economy of our country through its operations, both here and abroad. Our morale, our vigor, and our very future, as a significant force in the American business community, will in large measure rest upon a constructive and understanding treatment of this problem.

I thank you for your patience and courtesy today. The officers and more than 50,000 employees of Gulf have gone through a very searing and bitter experience. Our directors are determined that we will never suffer this trauma again and we look to you for leadership and legislative support.

Thank you very much.

THE PURPOSE OF THE SUBCOMMITTEE'S INVESTIGATION

Senator CHURCH. Mr. Dorsey, this has been a dismal story you have told. You know it; we know it. But I think you have done the right thing in coming before this committee and making the kind of forthright disclosure that you have made this morning.

When this matter first surfaced as a result of the investigation of the Securities and Exchange Commission, and the focus that has since resulted in the press, it made it imperative, I believe, that you bring to this committee, as you have this morning, the full and particularized disclosures that you have made, and for that I commend you.

As you have rightly observed, the purpose of this investigation is to determine if the Government of the United States can help in the future to bring an end to practices of this kind. That is the reason why we have undertaken this inquiry and that is the purpose we hope to serve.

I will have questions, other members of the committee will have questions.

When this hearing got underway earlier this morning neither Senator Symington nor Senator Percy were here. Before we go to the questions it may be that they will have some preliminary remarks they would like to make. Senator Percy has so indicated.

Senator Symington, do you have any comment you would like to make at this time?

Senator SYMINGTON. Not at this time, Mr. Chairman, thank you.

Senator CHURCH. Then, the Chair recognizes Senator Percy.

REMARKS OF SENATOR PERCY

Senator PERCY. Mr. Chairman, I can understand Mr. Dorsey's dilemma today and I know the agony of 50,000 employees and your directors and appreciate the problems presented to you. The Nation has gone through a very traumatic experience in recent months and your own dilemma has been a very great one, indeed. I want you to know that we did deliberate long and hard about the wisdom of having open hearings. It was a unanimous decision by the members of the committee that the public interest in the long run and the national interest in the long run and free world interest in the long run would best be served by it; that the sunshine that we put on these events, the very fact that it could be brought out in the public, probably is a test of our system, just as Watergate was a terrible experience for all of us. This, too, is a very difficult experience. Two members of this committee, Senator Symington and myself have spent many, many years in industry. We both operated multinational corporations. We both did business in countries all over the world, manufactured abroad and distributed and sold abroad, so we have first-hand knowledge as to the problems involved, and I imagine both of us have been confronted with decisions through the course of 25 years, in my case, as I headed foreign manufacturing as a junior officer in the company before becoming chief executive officer. But we had to face those decisions and we did each and every time and I discussed with my colleague in executive session on the record what my own experience was there and I had no hesitancy in so doing.

The importance of the hearings that we are holding today by the Subcommittee on Multinational Corporations is really not to determine whether Gulf Oil did or did not contribute to a political process abroad. Gulf Oil has already admitted publicly that it has done so. Nor is this hearing designed to investigate whether Gulf Oil, its officers or directors, have committed an illegal act. There is no statutory prohibition against corporate political contributions abroad. The purpose of the hearing is to examine U.S. corporate business practices abroad and to attempt to ascertain the impact of these practices on U.S. foreign policy.

Gulf Oil represents a case study of this issue just as ITT served this subcommittee as a case study of a corporation attempting to influence U.S. policies toward Chile. Other cases such as *United Brands* and *Northrop* have been featured recently in the press. The alleged issues in the latter two cases are respectively bribery and kickbacks on sales.

Some argue that the real damage done to the U.S. foreign policy is in the public revelation of these case studies. I disagree and every single member of this committee has disagreed. The real damage done is to the political and constitutional process of the recipient countries.

Corruption is the dry rot of the capitalistic system, or any other system for that matter. It rewards wealth, influence, and access. There is no market for talent or excellence. Leadership is selected on other criteria than competence. Certainly Cambodia and South Vietnam suffered heavily from this dry rot and our foreign policy suffered along with it. And it was that internal dry rot that brought about the collapse of those governments because simply they would not and

could not be supported by their citizens because it permeated throughout society there.

It is not in our national interest to foster corruption in other countries nor to condone it. However, we cannot play ostrich. Corruption is present and institutionalized in many of the countries with whom we deal. Civil servants are underpaid on the assumption that they are going to make it up elsewhere, and they are really expected to do so, politicians consider their post as high-risk employment and want what they consider just compensation. This is not just a fault of others, we have it here in the United States also. And I only need remind myself that I have lived in Cook County for over a half century and have seen it under both Republican and Democratic administrations rampant in Cook County, Ill., and we are not proud of it one bit.

The remedy is not pillory of U.S. corporations who must work in this environment if they wish to do business. Maybe we ought to have legislation, and I was very, very proud indeed and pleased that you saw fit to come forth with a very straight-forward recommendation in this regard. I wonder what we would do as members of the Senate if we did not have an absolutely clear regulation that no gift can be accepted by us or by any member of the U.S. Government in excess of \$50 in value. The clarity of this regulation leaves no equivocation whatsoever and leaves no hesitancy in my mind, as I have turned back gifts that have been offered to me by governments around the world. To them it is a very small token and they put it in a token value, but when the value is \$51 it goes back and the law makes it very clear and there can be no hurt feelings or misunderstandings about it.

But, indeed, that is one of the questions as to whether we should have such legislation now affecting political contributions abroad.

Your testimony has been extraordinarily helpful in that regard. I hope these hearings will help us answer the question whether or not legislation of any type is needed in this area.

I also hope we can discover how pervasive such practices are, how many U.S. companies feel compelled to deal in this type of fashion in order to conduct business abroad. To blind ourselves to the fact that such practices exist can only perpetuate them. I think it would be in the best interest of the U.S. Government, U.S. companies and indeed, host countries to bring these practices right out in the open. If they are known, our Government can make direct representation to other governments on behalf of U.S. companies and other countries can hopefully be stimulated into taking corrective measures. The truth may not always make one free but it can hopefully prevent perpetual enslavement to a system that thrives on secrecy and darkness.

I think in closing, I would like to, because of the excellent quotation that our distinguished chairman put into the record this morning, which certainly would be hard to improve on—Justice Brandeis in 1914 had this to say:

Publicity is just commended as a remedy for industrial disease. Sunlight is said to be the best disinfectant. A corporation avoids conduct that will prove embarrassing if disclosed; the possibility of future disclosure constitutes a major element in shaping current decisions.

I think to bring sunlight to bear, to demonstrate and prove our system, will require that we do so and that even when there are activi-

ties that we are not proud of, at least the process is such we can bring it to bear, and we are strong enough and tough enough to be able to resist it, whatever harm it may do, to overcome it, and then go about, setting about to see that we correct it in the future, and I think your contribution this morning has been extraordinarily helpful to us.

COMMENTS BY SENATOR CHURCH

Senator CHURCH. Thank you very much, Senator Percy. It had been contemplated, Mr. Dorsey, that the information you have volunteered would be asked for and extracted, if you will, through a series of detailed questions. Most of those questions are now unnecessary though there are some we could ask.

I will not press you to speculate on those areas to which you referred where an investigation is now underway. You have given us your pledge when that information is available it will be supplied to this committee, and I agree with you that it would not serve anyone's interest to speculate on what is not now known. I am assured from what you have told us you will give us a full disclosure of anything else that may emerge.

THE KOREAN CONTRIBUTION

Now, going to the Korean case. You mentioned on page 11 of your testimony:

As you all know, following the Korean conflict the Republic of Korea went through a period of economic and political strife. This struggle was still continuing when Gulf was asked to participate in the ownership of a substantial industrial facility in Korea, which represented the largest foreign private investment in that country.

This came about with the encouragement of the U.S. Government.

Korea was given assistance through aid loans, to participate in joint ventures with Gulf, and our Government through OPIC, provided insurance for our investments in Korea in order to further encourage our participation.

I think that is an accurate statement of the situation at the time.

What I would like to know is, inasmuch as the U.S. Government was then engaged in a very large aid program for the Government of Korea, and inasmuch as some of that aid money furnished Korea by the American Government was to be used in this project, there was a clear Government interest involved.

Furthermore, through OPIC the Government of the United States had undertaken to insure your investment against various hazards, including the hazard of expropriation.

ROLE OF THE AMERICAN EMBASSY

That being the case, did you at any time while the conversations were underway with the Koreans involved, and before any money was paid over to the political party, advise the American Embassy of the Korea demand for money?

Mr. DORSEY. No, sir, I did not.

Senator CHURCH. Why did you not?

Mr. DORSEY. Well, I suppose it goes back to a sort of a lifetime habit of our lifetime experience of having received very little help from the State Department and the American Government in foreign en-

deavors and very often finding they had very little interest and would just as soon as not talk to us. This was not true in Korea, I hasten to add. The AID people there were extremely helpful. I think they are probably among the most able State Department people I have ever known. And we had during these times that I was associated in Korea excellent ambassadors, but it never occurred to me to go. I suppose it was a lifetime habit or maybe I was basically ashamed of what was going on, I do not know.

PRESSURE FROM THE KOREAN GOVERNMENT

Senator CHURCH. On page 12 of your statement you say:

The leaders of the governing political party in South Korea determined that this could be accomplished by exerting severe pressure for campaign contributions on foreign companies operating there.

To your knowledge, was such pressure exerted against other foreign companies besides Gulf?

Mr. DORSEY. No, not to my certain knowledge. The only reason I would have to think it might be is that the fundraiser for the party, who was the man with whom I dealt, made it clear to me and made it very clear to other Gulf people with whom he had talked before he talked to me, that this favor was being distributed equally among all investors and surely others would be, and, of course, as always in fundraising there is always a broad implication that the other chap has, whether it is true or not. The rules of the game are you do not ask but the strong implication was they had. These things are not quite that straightforward, they are always veiled.

Senator CHURCH. Yes. But would it be fair to say that, and would it be accurate to say that, in your exchanges with the Koreans involved you were left with the impression that other companies were also making contributions or also being approached for the purpose of soliciting contributions?

Mr. DORSEY. That is correct.

PURPOSE OF BAHAMAS EXPLORATION CO. LTD.

Senator CHURCH. On page 13 of your statement you have testified as follows:

Although each of the contributions came from company funds in the United States, the transfers were recorded as an advance to Bahamas Exploration Company Limited, where they were reflected on the books and records of the Bahamas Exploration Company as an expense.

And further on in your statement, on the bottom of page 19, you say, with further reference to the Bahamas Exploration Co., Ltd.:

Except for the helicopter, the funds which were used for contributions, gifts and entertainment and other expenses abroad were recorded on Bahamas Exploration books merely for accounting purposes. The monies were never deposited in the Nassau bank.

CONCEALMENT OF FUNDS

Now, the accounting purposes is really a way of saying that the funds were handled this way in order to conceal the actual use to which the money was put: is that not true?

Mr. DORSEY. I think that is an accurate statement, yes.

THE PUBLIC EDUCATION FUND

Senator CHURCH. On page 17, you have testified, I will read the whole paragraph:

A further charge in the amount of \$50,000 also appears in the books and records of the Bahamas Exploration Co. in 1970. Here again the payment is being investigated by the review committee but it appears that the amount was made available through the First National City Bank, Beirut, Lebanon, for the purpose of helping to defray the expenses of a public education program endeavoring to bring about a better understanding of the Arab-Israeli conflict.

Can you give us any further details about that public education program and just what its objectives were?

The language you use is rather general here and I am wondering if you can give us further particulars.

Mr. DORSEY. I would give you my general impression. I can get details for you. But my general impression is that at that time there was a feeling among the Arab countries and the Arab leaders that the Arab position in this entire matter, Middle East matter, in the conflict with the Israelis was not understood. The Arab position was not understood in the United States.

And my impression is that they felt that there should be launched a public relations campaign, the usual kind of thing, find yourself a public relations man in New York and get favorable articles in newspapers, I suppose, and get TV coverage and whatever, to tell their side of the story.

That is my general impression but I could get you more details, if you like.

Senator CHURCH. I think that clarifies the objective.

The question that I have is why could not the Arabs pay for their own publicity campaign in the United States?

Mr. DORSEY. It is a very good question. There is no reason why they could not.

Senator CHURCH. They certainly do not lack the money.

Mr. DORSEY. They do not lack the money. I do not know why and I would just as soon not speculate on why they did not.

Senator CHURCH. Well, is it true that other oil companies funneled money through the Gulf Co. in this particular enterprise?

Mr. DORSEY. I do not know that. I certainly would doubt it. I would presume that whoever was making the approach made it equal to all companies. I do not think we took a lead in it. I think we simply were contributors.

CONCEALMENT OF FUNDS FOR ARAB PUBLICITY CAMPAIGN

Senator CHURCH. Would it be fair to say that the contribution made by Gulf for purposes of financing the Arab publicity campaign in this country was concealed and that arrangements for making this money available were for the purpose of concealing it?

Mr. DORSEY. I do not really know. I was not aware of this at the time it was done. I am not sure whether there was an attempt to conceal it or not. I think you can reason that there was or it would not have gone through this account.

Senator CHURCH. The account suggests a purpose of concealment.

Mr. DORSEY. Yes.

Senator CHURCH. Is this the first time that you have made a public disclosure of this particular expenditure?

Mr. DORSEY. I am not sure at all. It has only come to my attention because of the investigation and it was an additional amount of money that did go through the Bahamas Exploration account. In an attempt to be perfectly candid, I am talking about that. I do think that if there has been any publicity given to it before, it is not a very large amount of money.

THE ARAB INFORMATION LEAGUE

Senator CHURCH. Do you know whether the money went to the Arab Information League in Dallas?

Mr. DORSEY. No, I do not. My impression is it was a Middle East request, that the request was made in the Middle East, but I am not sure of that. If you want more information I will be glad to find it for you.

Senator CHURCH. If you could furnish us with more details, that would be appreciated.

LEGISLATION AND ITS EFFECTS

I will turn to other members of the committee, to this final statement that you have made in your prepared testimony this morning. You have said,

But you can help us, and many other multinational companies which are confronted with this problem, by enacting legislation which would outlaw any foreign contribution by an American company. Such a statute on our books would make it easier to resist the very intense pressures which are placed upon us from time to time. If we could cite our law which says we may not do it, we would be in a better position to resist these pressures and to refuse the requests.

Having had much experience in dealing with the problem you have described to this committee today, do you believe that had such a law been on the books you would have been in a greatly stronger position to resist the demands that were made upon you in Korea?

Mr. DORSEY. There is no doubt of that. No doubt of that.

Senator CHURCH. And do you think that the long-term interests of American-owned multinational corporations would be furthered and their acceptability in foreign lands would be strengthened if such a law were enacted?

Mr. DORSEY. Well, I certainly agree that the long-term interest of American companies that operate abroad, that their interest would be enhanced and their situation would be improved by such legislation. As to their acceptability in foreign countries, I would not have any comment on that. You do not really go into countries based on that; there are other factors that determine.

VULNERABILITY OF THE MULTINATIONAL COMPANIES

Senator CHURCH. Would you worry or do you think that the fact that other governments might not impose similar restrictions upon their multinational companies would constitute a serious disadvantage to American companies competitively should the law be changed as you suggested?

Mr. DORSEY. I would only speak for the multinational oil companies. I would doubt it because basically, the competition in worldwide oil has been among seven companies and five of which are U.S.-based companies. And I think that that being so, five out of seven, that if they were all under the same constraints and basically, too, the same philosophical approach to the problem, that it would solve the problem. I do not think that two foreign oil companies, I mean non-U.S. oil companies, would have any particular advantage over us, because there again are many, many things that are determining.

You see, you do not go into a country, at least we do not, and contrary to popular opinion, I doubt if many people do, on the basis of bribes and corruption in the first place. I think you go in because you are invited. I think you go in because there are opportunities for you there, that you go in most of all because you are needed. If you are not needed in the country there is no point in your being there, and you will not make any money anyway.

So you do not go into these situations to make political contributions or to have people request them or to have people request anything, but it sort of flows along as you get more deeply involved and as your investment gets greater you tend to run into these things.

Senator CHURCH. The truth is, is it not, that once the investment is made and a great deal of money is then at stake, the position of the company becomes more vulnerable to pressures of this kind?

Mr. DORSEY. Yes, of course. Our history in Korea would indicate that where we started out with an initial \$25 million investment and one time had an investment of as much as, I think \$350 million.

Senator CHURCH. And the demands went from \$1 million contribution to \$3 million and then \$10 million, did it not?

Mr. DORSEY. That is true.

Senator CHURCH. The next round?

Mr. DORSEY. That is true.

Senator CHURCH. Senator Symington.

Senator SYMINGTON. Thank you, Mr. Chairman.

Mr. Dorsey, I am sort of new on this subject.

DOMESTIC CONTRIBUTIONS

To go back to the first page of your statement, if I may for a minute. You say that, "from Mr. Cox's statement I learned for the first time that our then Washington vice president made certain contributions to the Committee to Re-Elect the President." It happens the gentleman in question who was representing you is a friend of mine and I have always considered him an honorable man.

How would he be able to have these millions upon millions of dollars without your knowledge as president of the corporation?

Mr. DORSEY. Well, that is a question I have been asked by the Special Prosecutor and by others and—

Senator SYMINGTON. I am not a Special Prosecutor, I am only a Senator. I am just asking for information.

Mr. DORSEY. I have been asked the question before and I can only say that it appears from the investigation, very thorough investigation that has been made, that in 1960, or maybe the year before, that an arrangement was made by the people that were running the com-

pany at that time, to where these funds could be made available for those political purposes, and the authorities were established and the mechanism was established, and it simply was like any other authority that gets established in a company. And there are thousands of authorities, if not hundreds of thousands. And this one kept right on going and everyone that was involved in it, quite apparently from the investigation that has been made since, was acting within his authority and within the authorities that had been given to him, and it simply went on until it was revealed in 1973.

I would simply point out—

Senator SYMINGTON. I am only asking. In other words, as I understand, it was something set up and never divulged to you until you came in as president?

Mr. DORSEY. That is correct.

Senator SYMINGTON. How was it expressed on the balance sheet you would sign when you put out your earnings statement to your stockholders?

Mr. DORSEY. I presume it was, I do not know that it was, obviously not revealed.

Senator SYMINGTON. Did you put it under the heading of miscellaneous?

Mr. DORSEY. Miscellaneous expense.

Senator SYMINGTON. And there were no questions about what this miscellaneous expense was for?

Mr. DORSEY. Senator, this was a relatively small amount of money. During this period of time I think the company did some \$60 or \$70 billion worth of business in that 15-year period and \$10 million is not really a very large amount of money, it does not stand out.

Senator SYMINGTON. \$5 million?

Mr. DORSEY. Well, the \$5 million I knew about. I am only talking about the portion that came into the United States of which I had no knowledge.

Senator SYMINGTON. I thought that was about \$5 million.

Mr. DORSEY. It was about \$5 million, yes, sir.

KOREAN PAYMENTS

Senator SYMINGTON. Well, going on to the question of Korea. For reasons that are not important, I have been involved with that over some period of years. As I get it, about 80 percent of the money that you felt necessary to pay off the people in order to get a better corporate position went to Korea; is that about right?

Mr. DORSEY. \$4 million out of \$5 million.

Senator SYMINGTON. And yet you were doing business with, I think your statement says, 70 different countries?

Mr. DORSEY. Yes.

Senator SYMINGTON. You did not have to pay any money to other people in any amounts in other countries?

Mr. DORSEY. Well, I have revealed in my statement everything I know, everything the investigation has brought out, and I rather think it is basically a complete statement.

I would be more surprised than anyone else if there were any large amounts of money that have not been revealed, although I still say the investigation is ongoing.

THE PERCENTAGE OF GULF'S BUSINESS IN KOREA

Senator SYMINGTON. Well, everybody knows that Gulf is a great corporation and I was wondering what percentage of business did Gulf do with Korea as against its worldwide business?

Mr. DORSEY. In any one year, I would think that it would be basically during that period of time it would have been probably in the nature of \$200 million a year out of a total of \$6 or \$7 billion, something of that magnitude.

Senator SYMINGTON. So you would be paying 80 percent of what you had to pay in holding down these political people for less than, \$200 million out of \$6 billion?

Mr. DORSEY. That is true.

Senator SYMINGTON. Three percent or something like that of your business it cost out of 80 percent of what you paid out in this fashion. Is that correct?

Mr. DORSEY. Yes, sir, I have not thought about it that way but it is quite correct.

OTHER COUNTRIES' CUSTOMS

Senator SYMINGTON. Another line that interests me, on page 9 you say you know "mores, customs, standards, values, principles, and attitudes vary all over the world. What is immoral to some is perfectly correct to others. What is onerous to one culture may be perfectly proper and decent to another. What is unacceptable in one society may be the norm in another."

Were you thinking of Korea when you said that?

Mr. DORSEY. Not particularly, although obviously, it was in my thoughts. But what I really had in mind in thinking about that were a number of rather interesting articles that have appeared in particularly the New York Times and Wall Street Journal over the past 2 or 3 weeks, I think even adding to my information about the practices around the world and implying even that the Pentagon has written a paper instructing people how to get along, arms salesmen in foreign countries. These are good articles, I think that—

Senator CHURCH. This is a subject to which the committee is going to turn its attention.

Senator SYMINGTON. The reason I asked that is that the next country you talk about is Korea, and what worries me is that, as you know, and I think you will agree, that South Korea could not have been held up militarily without the support of the United States in the years when you were giving the money to support the government that was in power at that time. Is that a fair statement?

Mr. DORSEY. I am very aware of that and that is a very true statement.

AID TO KOREA FROM THE U.S.

Senator SYMINGTON. Did you ever appeal to the State Department or any other Government agency to suggest that perhaps they get a few more tanks or perhaps it was not ethical if we were giving them all of the taxpayers' money of the United States to help them defend themselves, or whatever the words would be, to put the bite on you to that extent?

Mr. DORSEY. If I understand the question, I might rephrase it, that—

Senator SYMINGTON. I wish you would, because I would like to be clear.

Mr. DORSEY. You really are getting enough out of the United States, why don't you leave us alone?

Senator SYMINGTON. Or could you not say to the U.S. Government, look, there is no reason we have to pay a bribe in order to be competitive in this country and inasmuch as 80 percent of our money is being given to a country that we are defending and we are only doing 1.3 percent business with that country, can you not help us out?

I will change the figure and make it accurate.

THE SITUATION IN KOREA

Mr. DORSEY. Well, it is very difficult after these years to create the atmosphere that existed in Korea at that time.

Senator SYMINGTON. Have you ever talked to the State Department about it at all, until it was broken?

Mr. DORSEY. No.

Senator SYMINGTON. Never have?

Mr. DORSEY. No, sir.

Senator SYMINGTON. It was always a bribe situation with you and presumably the head of the Government of Korea, South Korea?

Mr. DORSEY. The head of the political party, not the government. I make that distinction because I was dealing with a man—

Senator SYMINGTON. Who was head of the political party at that time?

Mr. DORSEY. S. K. Kim. I mentioned his name in my testimony.

Senator SYMINGTON. I am sorry, I am not as much up on this as I should be.

There is a great deal of other business that you do with other countries in other parts of the world, Far East and Middle East, but you do not have this problem with those other countries based on the \$10 million figure; is that correct?

Mr. DORSEY. If I may, it really was a very different situation. You were dealing with people that literally, as you well know, were pulling themselves up by their bootstraps and doing an incredible job of doing it, and during the situation that I think—

Senator SYMINGTON. Their bootstraps or our bootstraps?

Mr. DORSEY. Senator Symington, I respectfully say that I have never known people that really did more for themselves in my life.

Senator SYMINGTON. What people are you talking about?

Mr. DORSEY. The Korean people.

Senator SYMINGTON. You are not talking about the money they got from you?

Mr. DORSEY. I am talking about their attitude toward work, their attitude toward education, attitude toward improving themselves.

Senator SYMINGTON. I have the greatest respect for South Korea, do not misunderstand me, but I cannot understand why, with the exception of South Vietnam or India or France or Great Britain we have given them aid, military and economic aid, more than any other country in the world except South Vietnam. I do not see why, unless there

is something that has not come out, it was necessary for you to give them this additional under-the-table money to do business in that country. I just cannot figure it out.

Mr. DORSEY. Well, I do not see the relationship between our military spending in South Vietnam and anything we did. I presume military money goes for military purposes. I would only presume that.

Senator SYMINGTON. And economic aid would go for——

Mr. DORSEY. And economic aid——

Senator SYMINGTON [continuing]. Economic purposes?

Mr. DORSEY. But——

Senator SYMINGTON. What do you think this money went for?

KOREA'S USE OF THE MONEY

Mr. DORSEY. Well, I can tell you exactly how it was put to me. It was put to me that here we are, a struggling young democracy, which is true, we have been encouraged by your country to emulate you—that may not be their words—and we are trying to have democratic processes. As you know, it takes money to run an election. That is the way they put it to me. As you know, we as a party have no real way of raising money as you do in your country and we are, therefore, appealing to the business people, people who are doing business in our country, to raise this money, and without this money, we cannot accomplish the things that we are trying to accomplish. And I had substantial admiration for the government at that time, I thought it was doing a very good job, and they made a very cogent argument, I thought, but I do not see really any relationship between that and military or even other governments.

Senator CHURCH. May I make an observation here, Senator Symington? Would you yield for that purpose?

Senator SYMINGTON. Yes.

AMERICAN CONTRIBUTIONS ABROAD

Senator CHURCH. If other American companies in Korea did in fact make political contributions, which, as you have acknowledged, was contrary to Korean law, in these campaigns, in proportion to what Gulf made, then the American companies would have contributed between \$25 and \$30 million to these campaigns, which is an awful lot of money for conducting a campaign, even as measured by the contribution of businesses for the conduct of a national election in the United States.

Furthermore, with respect to your comment that with all due credit given the key reasons for what they have done, they pulled themselves up by their bootstraps, over this period the Government of the United States contributed a total of \$11,201 million to this small country in military and economic aid. So I suggest that Uncle Sam has handled one of those bootstraps awfully hard. Yet, by your testimony, despite the tremendous aid program that flowed into that country, at about \$400 million a year, and despite the direct connection that the American Government had with your particular investment, your aid money that it contributed and through insurance guarantees, Gulf never did tell the Government of the United States what was going on. The Embassy was never informed. Yet, you must have known the high

sensitivity of such a matter. You referred to it when you made your testimony to us this morning, severe political repercussions that are associated with any disclosure of this kind of contribution—sooner or later the truth comes out. So do you think it was a matter of national interest to the United States to know that these practices were underway, that they involved amounts of money of this magnitude. Why did you not tell the Government of your own country?

Mr. DORSEY. What you are saying sounds very reasonable today but this is a long time afterward.

Senator SYMINGTON. If I may continue, I just had a couple more questions here.

GULF'S REJECTION OF KOREAN DEMAND

You say that you visited Korea and there were heated discussions and you flatly rejected both the intensity of the measure being applied and the amount demanded, and in response to my position the \$10 million request was subsequently changed to \$3 million, to which I acquiesced, believing that the contribution would be in the best interests of the company.

So it was not the nature of the transaction, it was the amount of the transaction that was in your mind, is that correct?

Mr. DORSEY. Well, I do not know that was necessarily true. I would certainly rather hope the thing would never be brought up in the first place or go away, but it did not go away, it was persistent, and the real problem, of course, was the amount of money, but it was more than that.

Senator SYMINGTON. Well, I will finish my question. I am sure you are a good American, but this whole situation is beginning to worry a great many people about what we have to pay not only in other countries but in this country.

I noticed the name of the party, Democratic Republican Party. That covers a lot. There is not much left. It seems to me that everything we do in this country we do on the basis of national security.

I do not know if you read a book called, "Global Reach." If you have not, I think you would be interested in it.

Mr. DORSEY. Yes.

Senator SYMINGTON. Have you read it?

Mr. DORSEY. Yes, sir.

Senator SYMINGTON. Have you read a book called, "Power Play"?

Mr. DORSEY. I have it but I have not read it yet.

Senator SYMINGTON. I would hope that you would. I happen to believe that where you get the most criticism when it comes to national security is that we have not got enough weapons to handle the possible chief enemy. But to the best of my knowledge, I think we have far more than is necessary. On the other hand, I think a sound economy and a sound dollar is just as important to national security as the latest weapon system.

Now, you have a third situation which is coming into the picture, which is rather sad from the standpoint of this type and character of testimony, and that is the credibility of the people in the Government regardless of what party is in power. When you read of about 38 percent of the people voting in the last election, and one recently held in my State, 13 percent of the eligible voters voted. You can see that some-

thing is happening as a result of the relationships between the various component parts that make up our system, and it worries us a great deal.

I want to express my appreciation for your frankness this morning and I hope we can just get this story out. I think if there is any law that we can pass, we will do our best to try to improve this situation from the standpoint of new legislation. If you have any thoughts about any additional legislation that would help, in relationship to your various and vast investments abroad, I think the committee would appreciate them.

Mr. DORSEY. Thank you.

Senator SYMINGTON. Thank you for your courtesy.

Thank you, Mr. Chairman.

Senator CHURCH. Senator Percy.

PHILOSOPHICAL QUESTIONS

Senator PERCY. Mr. Dorsey, I would like to start with the broadest type of philosophical question but also one that enables you to assess the damages to date.

If you were to turn the clock back, and if you had taken a firm stand against any request to make illegal contributions and simply said it was against the law of your land, and I am not going to do it and it is against our principles and we are not going to do it, and you can do what you want to to us but we are not going to engage in it, and if you had taken every reasonable step that you could, through the United States Government, and through threatening to make this public disclosure in the country of the attempted solicitation, would you feel, looking back now, that possibly the damage, if you had taken that position, would be less to Gulf Oil Co. than the damage that you have so forthrightly testified and the agony and experience you have gone through, all of your employees and your Board and yourself and your officers, the damage would be greater now, having engaged in these practices, than it would have been if you had just taken a firm stand and stood up to the pressure?

Is it possible to put a balance sheet down in retrospect now? And I ask this question simply because I think every company in America doing business abroad is watching this hearing and will be looking now for advice and counsel from someone who has gone through the agony and borne the brunt of it.

GULF IN RETROSPECT

Mr. DORSEY. It is a very difficult question for me to answer because I suppose I have played both games or done both things.

There have been many instances where our company, and I suppose many other companies, could have gotten favorable concessions, favorable positions, favorable treatment, had we made substantial cash contributions in Swiss banks. I mean, the opportunities to do this are manifold.

We have never done that. We have never done that, to my knowledge, and I think that it is the sort of policy that I inherited. That apparently has been a loose policy but, nevertheless, a policy of the com-

pany for a long time. I think that that is probably a very logical policy because I think that there is no end to that. I think once you have succumbed to what basically is blackmail, or where you basically corrupted, can be accused of corruption, there is no end to that because basically, these things only happen in countries where there is a substantial political instability.

Senator PERCY. Going back to the question, if you could turn the clock back now, knowing the damages to your company because of this disclosure, would you feel Gulf would have been better off if it had taken a firm position it would not engage in any such illegality or immoral activity, knowing what I know today I would have run whatever the risks were at that time and suffered what business you may have lost?

Mr. DORSEY. Yes, sir.

Senator PERCY. Could you have fought it in another way rather than just caving in? Could you have through the State Department, through public disclosure, through getting tough yourself and toughing it out with these people who were putting pressure on you, do you think you could have minimized and cut down the damage? Was there any attempt to work with other American companies or other multinationals, whatever their origin, to see together if you could not stamp out this practice, because you are bidding against each other, in a sense?

Mr. DORSEY. No; we did not talk to any other companies and I doubt if we would do that under any circumstances.

As far as the American Government is concerned, you know until very recently, it may be a bit of overstatement, but not too much, to say that most American companies that went abroad and made substantial investments basically did it on their own, and as far as the U.S. Government was concerned, they were sort of like motherless children, they had to make their own way in the world, and I would point out to you the oil companies were encouraged by this Government after World War I to go abroad to get our stake in the Middle East, to do all these things. Immediately after we got there we were entirely overlooked, forgotten, or I could argue discriminated against. And in my own experience of working abroad, I can tell you that the U.S. State Department until very recently, and the U.S. Congress either, had damn little interest in our welfare. All at once everybody is concerned about us, they want to help us, but it is a little bit late. We have lost almost what we have had abroad. What we have not lost we will very shortly.

STATE DEPARTMENT HELP

Senator PERCY. When was the last time you went to the State Department as a company and presented a problem to them and said give us your help in this area? I am talking in the general area of political pressure and individual pressure on you for contributions, illegal or immoral.

Mr. DORSEY. Well, I would say that the first time we have had any encouragement to come to the State Department has been over-the period of the last 2 or 3 years.

Senator PERCY. When was the last time you actually did go, though you said in the past, in your earlier testimony, you said you really did not go to them because you did not get any help before that, implying you did go at one time.

When did Gulf Oil or any officer or employee of Gulf go to the State Department and ask for help in this regard?

Mr. DORSEY. The last time?

Senator PERCY. Yes.

Mr. DORSEY. I am sure that it would have been within the last few months.

Senator PERCY. And what kind of help did you get? What kind of position did they take?

I am looking to reference your earlier comment that you did not go to the State Department in response to a question put to you because you say that you felt you would get no help whatsoever based on your past experience.

What was that past experience, when was it, and who was it that you contacted and what did they say to you that discouraged you from taking the large cases, \$3 million and so forth, at the time they occurred in 1966?

THREATS OF LOSS OF FOREIGN ASSETS

Mr. DORSEY. Well, let me go back and answer your first question.

Over the past 3 or 4 years we have been obviously threatened with a loss of all of our foreign assets or at least our foreign production. The State Department has taken a very active interest in what is going on and has invited us in and we have gone to them on our own many times to seek their help, to talk to them, to do what we could, but I say before that, if I were in a given country around the world and you had an investment there, and you went to the Ambassador of that country with a problem you thought legitimate, I would say over the 20 or 30 years of my foreign experience you were very unlikely to get a very receptive answer or any expression of interest on his part so, therefore, you sort of get in the habit of not going, or when you go you get platitudes. So I would think it has been only in the last 3 or 4 years this has changed.

Senator PERCY. Pretty hard to get a platitude, though. I was given a gift above \$50 in a country, I took it right to the American Ambassador and said, this is a diplomatic problem, you figure out how to get rid of it, and he took it right back to the person who gave it to me without any if's, and's, or but's. I figured he ought to figure out how to best do it so as to least offend the person, and he did. It was his job and he has done it before.

When you were pressured for \$3 million, \$10 million, to start with, would that not have been a significant enough thing to have talked to the ambassador in Korea? Who was ambassador at the time—Phil Habib?

Mr. DORSEY. Habib was not there in 1966.

Senator PERCY. Did you not feel that there was an ambassador of competence you could have taken that problem to and discussed it with him? Because your statements are very demeaning of the State Department. It is not the State Department I have worked with and dealt with for 25 or 30 years in doing business abroad as well as a Senator.

I found them reasonably responsive and understanding and helpful and practical about how you go about it.

Mr. DORSEY. Well, I simply regret that that really has not been my experience over a long, long period of time, although I would hasten to add that Phil Habib, in my opinion, was an outstanding man when he was in Korea, he was very helpful, and I have made that exception that we did get from the AID in Korea, we got a great deal of help.

To answer your question, I can only say this: I do not know, I suppose at first the decisionmaking process says they have got us and we have got to make the best deal we can, we have got to pay. I suppose I then reasoned that to go to the ambassador of the United States and to acquaint him with the fact that we feel we must, would have been an embarrassment to him and I would just as soon as not do it.

Senator PERCY. I know when John McCloy was your special chairman in your committee, he testified before us, the London Policy Group always received help from the U.S. Government to allow oil companies to negotiate as a group with the oil exporting countries. I never heard in that testimony that our Government was impotent and incapable of offering assistance and help or facing up to these problems. I would like to ask—

Mr. DORSEY. I did make that exception that during the time McCloy and these groups, obviously, the State Department was working very closely.

THE KOREAN REQUEST

Senator PERCY. In the 1971 national election in Korea, you indicated that you were advised, when you were in Pittsburgh, of the request for \$10 million.

You said, "a short while thereafter I had occasion to be in Korea," implying that there was some other business that was important and while you were there, incidentally you started the bargain process with them on this particular contribution.

What was the nature of your business, Mr. Dorsey, that took you to Korea? When was the request transmitted to you in Pittsburgh, and how soon afterward did you go to Korea, what was the nature of your business in Korea, other than to discuss with the party official this contribution request?

Mr. DORSEY. Well, I do not know precisely at the time but I would guess it probably was within 30 or 40 days from the time I heard about it and was there. As to why I was there, I am not sure. During that period of time, beginning rather early, I had a basic responsibility in Korea and I went rather often. I went several times a year. We always had interests in Japan and Taiwan and Hong Kong, many other places.

Senator PERCY. On this particular trip did you go to Japan and Taiwan and Hong Kong?

Mr. DORSEY. I would have to look at my passport to know. I really do not know. Normally, I did and I expect I did this time. But as to why I was there, I cannot say. I would point out that during this period—

Senator PERCY. Was the trip essentially, though, because of this request?

Mr. DORSEY. No.

Senator PERCY. Here you are threatened with possibly losing your whole position there, and a demand, pressing demand for \$10 million.

That seems to me a rather moral issue and I wondered whether you could not deduce the real purpose of your trip was to take care of this matter and handle it, was it an incidental part of your trip? Because that is the implication, you say you had occasion to be in Korea and witness firsthand the pressure being exerted.

Mr. DORSEY. Well, these are very difficult things to remember. I can only reason that in 1966 I did not go to Korea. In 1970 I did. I went rather often. Quite honestly, if I had to speculate, my speculation would be that I would have attempted to avoid this kind of pressure because basically, once they get to me on an issue like this it is do or die, there is no buckpassing at this point.

Senator PERCY. That is right.

Mr. DORSEY. So, my normal instinct, I think, would have to be avoid it and let some other poor devil out there take all the flack and fight it out. So I might have had another very good reason for being there.

Senator PERCY. That is right. And that is why the haziness of your memory on this issue, it seems to me, burned into your memory as to why you would take the initial action when ordinarily these things were done by other officers in the company, to personally intervene on this particular matter.

Mr. DORSEY. Well, I did not intervene. My recollection is I was very surprised that indeed, they came to me. I did not expect to be. Normally, this was not what you would expect.

Senator PERCY. In other words, you were in Pittsburgh, you knew about it, you went to Korea, and they broached it with you before you raised the subject with them?

Mr. DORSEY. Absolutely. I could not have been more shocked and more surprised as to what happened. I got there and this Mr. Kim, who had to be, I suppose, about as tough a man as I have been accosted by in my life, invited me out to his home. He got me in his home and I tell you I have never suffered the kind of abuse I got from him that day. He left no question, he was a plain rough and tough fundraiser and that is what he does.

ROLE OF PRESIDENT PARK

Senator PERCY. Did he at any time in that conversation invoke the name of President Park and indicate that he was acting under his direction? After all, he is party chairman but he serves at the will of the President, does he not?

Mr. DORSEY. He was not party chairman, he was the fundraiser for the party. This is S. K. Kim.

Senator PERCY. He was finance chairman?

Mr. DORSEY. Yes, sir.

Senator PERCY. Did he at any time use the name of President Park or invoke that name to indicate what he was requesting had the full support and backing of President Park, or any top official of the Government of South Korea?

Mr. DORSEY. I cannot recall that. It would not surprise me. If anybody came to me in the United States, they would invoke as high a name as they possibly could under any circumstances, you know. That if he did it did not mean anything to me.

I was asked several years ago—I worked in a savings bond program for a number of years and I was asked to be national chairman one year and I was thinking about it, innocuous enough, the man that called me up and asked me to do it said something very much like it certainly would not do your company any harm or something like that. Hell, I would have done the job anyway, I did not have to have that kind of treatment. Nevertheless, this is what happens. So, if he did I would not be surprised. I cannot say whether he did or did not.

Senator PERCY. You cannot recall whether he invoked the name of President Park?

Mr. DORSEY. I would doubt it because President Park is held among all those people in his party and in his government—

INVOLVEMENT OF OTHER COMPANIES

Senator PERCY. You have knowledge that other American companies did make contributions and that you were not just singled out and being made the target to bear the full brunt of this cost?

Mr. DORSEY. Well, I was told by the fundraiser that all foreign companies were expected and I think he told me that some had.

Senator PERCY. But that they did make—

Mr. DORSEY. Yes, sir.

Senator PERCY. He said to you they had made contributions and you were expected to do the same thing?

Mr. DORSEY. Yes, sir.

Senator PERCY. Taking into account the Chair's question and calculation as to how much this might have amounted to, assuming that would be a huge sum here in this country, certainly almost as big in itself as any political campaign before the 1972 campaign, which reached proportions that are new highs, or lows—[Laughter.] [Continuing]—\$25 or \$30 million could not possibly be spent, and anyone out there observing it and observing the process, and I have been there a number of times, would know that that money was not spent for the political Democratic Republican process of electing President Park or electing anyone who had the kind of control that he had when he did not even permit opposition.

Did you suspect or feel that pay-offs were being made and part of this money was being used for officials and individual bribes in a sense, or contributions to individuals?

Mr. DORSEY. No, I certainly had no reason to believe that.

GULF'S CONTRIBUTIONS TO OTHERS

Senator PERCY. Has Gulf at any time ever made a monetary contribution to an official of another government or a party official or a wife or spouse, as it is frequently done in some Asian countries? You do it to the wife, not to the principal himself.

Has Gulf ever made a contribution to an individual of that kind of any significance other than the helicopter that you have already testified to?

Mr. DORSEY. Other than that, to my knowledge, no.

Senator PERCY. No individual contribution.

DISTRIBUTION OF GULF'S CONTRIBUTION

What, Mr. Dorsey, was your feeling as to how much of this \$10 million request, \$3 million actually paid, went into the party coffers and how much went into someone's pocket? Did you suspect part of the political request was in accordance with the customs and mores of the country?

Mr. DORSEY. I certainly have no way of knowing. I would say this. That, as far as I know, we did not suffer what seems to be the normal sort of harassment of, you have got to do a little something for the custom man to get certain things done. As far as I know, this had not happened in Korea.

BARGAINING WITH MR. KIM

Senator PERCY. You said in your testimony you had two discussions with an official of the party and you flatly rejected both the intensity of the pressure being applied and the amount demanded. You bargained them down from \$10 million to \$8 million.

What reasoning did you use and did you attempt to get it down to zero and take a position during the course of the heated conversation with Mr. Kim that you were not going to pay anything, or was it just a question of bargaining as to how much it was going to be, not whether the contribution was to be made?

Mr. DORSEY. I am afraid I had made up my mind by that time we were damn well going to pay something. I was simply trying to reduce the amount.

Senator PERCY. You were bargaining on the amount.

THE PUBLIC EDUCATION FUND

Finally, because I would like to yield to Senator Clark and then come back—I would like to ask on the contribution of \$50,000 that you indicated that had been set up in a fund, and that a part of that was used or it was set up for the purpose of public relations expenses, was the name Gulf Oil, did the name Gulf Oil ever appear on any publicity releases or advertisements or public information put out for that \$50,000 expenditure?

Mr. DORSEY. I do not think so. I am not aware of it if it did.

Senator PERCY. Can you furnish to this subcommittee exhibits as to the type of ads, the type of publicity release, public information, that went out as a result of your expenditures?

Mr. DORSEY. Yes, I said we would give everything on this subject that we can find.

Senator PERCY. All right. Fine.

Senator CHURCH. Senator Clark.

Senator CLARK. Thank you, Mr. Chairman.

LAUNDERING OF THE FUNDS

Mr. Dorsey, is it fair to say that Gulf Oil Corp. violated the laws of Korea and the United States in making political contributions in the amount of about \$10 million, and that you laundered that money through a Bahamas company so it would not be easily discovered?

Is that all fair, in your judgment, to say and, if not, which part is not?

Mr. DORSEY. Well, it is a rather comprehensive question.

I testified here today to about \$5 million that went abroad that largely went through the Bahamas corporation that was not illegal in the United States and apparently was illegal, some of it, where it was spent, yes.

As to the amount of money, the rest of the \$10 million, I know what the investigation has turned up, and that is that around \$5 million, the remainder of it, was spent in the United States for political reasons.

Senator CLARK. That was illegal, was it not?

Mr. DORSEY. It appeared a large part of it, but I was not sure entirely that the rest of it was.

Senator CLARK. Your testimony on page 2 says \$10.3 million of corporate funds.

I assume all corporate funds that are contributed in the United States are illegal?

Mr. DORSEY. I do not think they were all contributions.

Senator CLARK. I see.

Let us change that to say, is it fair to say that the Gulf Oil Co. violated the laws in Korea and the United States to make political contributions and laundered it through a Bahamas company? Is that fair?

Mr. DORSEY. Well, I think it is fair they made illegal contributions. Laundering is your phrase. I am not sure what I know—

Senator CLARK. Why did you put it through the Bahamas company rather than make it direct?

Mr. DORSEY. Yes, sir.

OTHER CORPORATIONS' CONTRIBUTIONS

Senator CLARK. Now do you think that your multinational corporation is any worse or any different in that practice, or do most of them do it, in your judgment?

Mr. DORSEY. Well, I would like to think that we are a lot worse but I do not have any good reason to think that.

Senator CLARK. I think you are right, it is very common practice.

VIOLATIONS OF EXISTING LAWS

I would just like to ask you about three or four statements or comments in your testimony and just ask you to turn to those so we are talking about the same point.

First, on page 20, the very bottom of the page, the last paragraph. You are speaking here to the committee. Our chairman raised this point and I think Senator Percy did also. You are speaking to the committee and say:

But you can help us and many other multinational companies which are confronted with this problem by enacting legislation that would outlaw any foreign contributions by any American company. Such a statute on our books would make it easier to resist the very intensive pressures which are placed upon us from time to time. If we can cite our law which says that we just may not do it, we would be in a better position to resist these pressures and to refuse the requests.

But in point of fact, you have already violated both American law and Korean law. What would one more law mean to you in this respect? Why would that help you?

Mr. DORSEY. I am not speaking to the U.S. matter, I am speaking to the foreign matter.

Senator CLARK. You violated U.S. law in your contribution to the Committee to Re-Elect the President.

Mr. DORSEY. Are you saying I am a rascal and no matter what—

Senator CLARK. I am saying I am curious why one more law would be more effective than the laws that are already on the books, which you openly admit you violated?

Mr. DORSEY. Because there is no law, no U.S. law that says our contribution to Korea was illegal in the United States.

Senator CLARK. You are saying you would be more apt to abide by that law than the law that forbids corporate contributions to American parties?

Mr. DORSEY. We are constrained by many U.S. laws about what we do abroad and as far as I know, we have honored every one of them.

Senator CLARK. You did not honor the Korean law.

Mr. DORSEY. The Korean law, as far as I was concerned at that time, I was under the impression, as I testified when I was here last time—I was under the impression and it seemed to be a very difficult law to interpret, and that is not only true of Korea, it is very true if you go to Japan or Taiwan. If you try to interpret their laws you can get into some very confused areas.

Senator CLARK. You interpreted it in your testimony to have been a violation of the Korean law?

Mr. SEAMANS. May I interject? I think his testimony, including his executive testimony, was he did not know it then but has since been advised there are opinions that way. And may I help if I say it is not only difficult to interpret, it is difficult to find when you are looking for—

Senator CLARK. Do you have some question about the legality of that contribution under Korean law now?

Mr. SEAMANS. We have been advised by people who are probably closer than we, it is illegal.

Senator CLARK. And you would subscribe to the idea that ignorance of the law is no reason?

Mr. SEAMANS. I am merely pointing to the practical problem. If he had asked for our law office to find the legality of the Korean situation we would not have known where to look.

Senator CLARK. Let me ask you about page 14, in the middle of the page. In the very middle you say, I believed at the time that such a contribution was both proper and legal under both American and Korean law. I have recently been advised that they were in fact in violation of the Korean statute.

So you do believe in fact that they are a violation of Korean statute now?

Mr. DORSEY. Of course.

Senator CLARK. I wanted to be sure that was established.

Page 12, middle of paragraph, first three sentences; bear with me while I read this.

It was this background that gave rise to the demand in 1966 that the company make a substantial contribution to the campaign of the Democratic Republican Party, which was then and still is the ruling party in South Korea. Our investigation indicates that the demand was made by a high party official and was accompanied by pressure which left little to the imagination as to what would occur if the company would choose to turn its back on the request. At that time the company had already made a huge investment in Korea.

Do you interpret that payment to have been a contribution or a bribe?

Mr. DORSEY. A political contribution.

Senator CLARK. To the Democratic Republican Party?

Mr. DORSEY. Yes, sir.

Senator CLARK. Now, you discussed with Senator Symington about the democratic development of South Korea and talked about contributing to that, and in fact was not your illegal contribution an interference in that democratic process?

Mr. DORSEY. I would have to admit that now, yes.

SUPPORT OF THE DEMOCRATIC REPUBLICAN PARTY

Senator CLARK. And I was interested in why you feel that the Democratic Republican Party is more democratic than the New Democratic Party whom they opposed and in a very close election? Why did you support the Democratic Republican Party rather than the New Democratic Party?

Mr. DORSEY. Well, I suppose as a matter of pragmatism this was the party that was in power when we came into the country when we made our investments. There was every indication that they were a powerful party and that they probably would be reelected, but I guess most of all, you have got to understand this—or at least I would ask you to. Against a background of any foreign country, any American company living abroad, working abroad outside of certain areas like most of Western Europe, you really are there by sufferance and that is made clear to you in subtle ways. You are made to feel that from the time you got there and as I say, the more investment you make the more you are given subtlety to understand it.

Senator CLARK. Well, as you may know, the Democratic Republican Party won that election by only 51 percent. It is conceivable, it seems to me, that your contribution may have made the difference. Do you think that is possible?

Mr. DORSEY. Statistically I would have to admit you are right.

Senator CLARK. But you do not feel any more strongly, your company or you, or whoever made the determination, that the party you supported was any more democratic or has any better tradition than the party you did not support. You did it, I assume, out of the interest of your stockholders?

Mr. DORSEY. Exactly.

Senator CLARK. Now I have only two more questions.

PRESERVING INVESTMENT IN SHAREHOLDER'S INTEREST

First, on page 10, middle paragraph, it is really a little more on what we were just talking about. You say—this is in the middle paragraph down in the second sentence—"I felt at the time and under the

pressure applied that I had taken the right course in order to preserve our investment in our shareholders' interest."

You repeat that again on the bottom of page 12 by simply saying, "I carefully weighed demand for contribution in that light and my decision to make contribution of \$1 million was based upon what I sincerely considered to be in the best interest of the company and its shareholders." This was the sole basis of your decision; I assume it was not something that had to do with the national interest of the United States. That, I assume, is not your responsibility. You make decisions on these contributions solely on profit motives for the stockholders' interest, is that correct?

Mr. DORSEY. Exactly right.

Senator CLARK. I think Senator Symington referred to a couple of studies of multinational corporations in which that point is made over and over again, and I think you are quite right in saying that.

I have two more questions.

THE NATIONAL INTEREST

One, if you turn to page 9, again something Senator Symington read, at the top of the page, an interesting philosophical statement, which I believe again represents accurately the—

Senator PERCY. Senator Clark, the last comment you made, if you would not mind, it bothers me a little bit.

Senator CLARK. I really not only made it—

Senator PERCY. I am not a spokesman for multinational corporations but I cannot believe that any board rooms when decisions are made, many times what the national interest is comes up as a paramount consideration and that they many times make decisions based upon the national interest.

I can recall in 1954 debating this with my board as to whether I support the tariff policy of my industry, which was a high tariff, or go for what we wanted as a Nation, reciprocal reductions, including everything that we manufactured, and we decided and the board decided that we could not put the company's interest out ahead of the country's interest. We had to adjust and not ask the country, and I cannot help but believe that same debate goes on many, many times and really should, and I would not want the implication left that we would condone a company not taking into account their own country's national interest in a decision they make and only the profit motive should govern their decision.

I do not think you meant to imply that at all, but I felt that the record might stand that way and I want to give you a chance to just comment on it.

COMPANIES OPERATE FOR SHAREHOLDER RATHER THAN NATIONAL INTEREST

Senator CLARK. I certainly do not question that the shareholders or the board discusses the national interest. I was simply trying to establish it is their job, and I think Mr. Dorsey just confirmed that, to operate their company in the interest of the shareholders, not in the national interest. That is not their responsibility to determine what the national interest is. It is the board of directors' position to

determine what the shareholders' interests are, that is their responsibility, and that is the basis, I think Mr. Dorsey has testified upon which this contribution was made. If I am inaccurate in that, Mr. Dorsey, I would like to have you correct me.

Mr. DORSEY. No, no, I quite agree with that, that is precisely what I said, passing no judgment one way or the other about the national interest of the United States.

CHANGING MORAL AND CULTURAL STANDARDS OF THE WORLD

Senator CLARK. Top of page 9, I think I would not read this all, just a couple of sentences:

"There is no universal ethical absolute.

"In the course of your responsibilities as United States Senators, most of you have travelled all around the world."

When you talk in that first paragraph about the changing moral and cultural standards in the world, is the purpose of this paragraph to point out in part you adjust to the morality of the country that you operate in, you do in Rome as the Romans do? What is the purpose of that paragraph?

Mr. DORSEY. Well, that may be putting it a little bit bluntly but actually, that quotation is a pejorative quotation, if I may say so. I think on the other hand, it can be said if you are going to do business in any foreign country that you really are going to do business within the ambience that exists there within the culture and mores, and that is right and you had best understand it when you get there and even then you will be surprised.

ADJUSTING ETHICAL STANDARDS

Senator CLARK. So multinational corporations, I agree with what you are saying, do adjust their ethical standards and morality to fit the condition in which they operate, just as they do the economies in which they operate, or any other part of that country's operation. You could not operate otherwise, could you?

Mr. DORSEY. I think that is correct, you could not.

PROMOTION OF THE ARAB CAUSE

Senator CLARK. The last question, Senator Church's question on your activity in the Middle East, on page 17, middle of the second sentence, you say, "It appears that the amount was made available through the First National City Bank, Beirut, Lebanon, for the purpose of helping to defray the expenses of a public education program endeavoring to bring about a better understanding in America of the Arab-Israeli conflict."

And that you have testified, I think, from the Arab point of view.

Mr. DORSEY. Exactly.

Senator CLARK. Is it fair to say that you were promoting the Arab cause to better your relations with the Arab or oil producing countries, again in the interest of your shareholders, or did you have other motives?

Mr. DORSEY. I think this might be one case where our interest coincided with that of the United States. There were really billions of

barrels of oil and we are now paying the price really, for lack of attention there, I think.

Senator CLARK. Again, your decision was not based on that, it was based on shareholders' interest, not on the interest of the United States?

Mr. DORSEY. It was based on the shareholder interest.

Senator CLARK. You undertook those expenditures because you felt it was in the best economic interest of your corporation?

Mr. DORSEY. Just as if we had in Yugoslavia and they wanted to have an exhibit in the World's Fair, they might have asked us for a contribution to put it on and we probably would have done it.

Senator CLARK. If that had been to promote the Tito Government of Yugoslavia—

Mr. DORSEY. I did not say that, you are saying things I am not.

Senator CLARK. I am asking—

Mr. DORSEY. That was not the example that I used. Let us get away from the Tito government.

Senator CLARK. OK. I think you have been most direct and responsive and I appreciate it.

Senator CHURCH. Senator Clark requested permission of the Chair to read a sentence or two into the record.

THE WASHINGTON POST ARTICLE

Senator CLARK. I thought it might be appropriate in relation to the contribution to the Democratic Republican Party, the government of Mr. Park, to simply read the first sentence from the Washington Post front page story of last Wednesday, May 14 which says, "South Korea President Park Chung Hee issued a sweeping presidential edict today banning virtually all internal dissent on threat of prison terms of up to 15 years."

Thank you, Mr. Chairman.

Senator CHURCH. Well, that eliminates the problem of further campaign contributions.

Senator CLARK. It should.

THE GULF INVESTMENT IN KOREA

Senator CHURCH. Mr. Dorsey, can you briefly describe for the record, the nature and extent of the Gulf investment in Korea?

Mr. DORSEY. I am sorry. I could not hear for the noise.

Senator CHURCH. Would you please describe for the record, the Gulf Oil Co.'s investment in Korea?

Mr. DORSEY. I can give it to you in any amount of detail you want.

Senator CHURCH. Give us some idea of its nature and its size.

Mr. DORSEY. We went in in 1963 and invested \$25 million in a half interest in a rather small refinery. Our partner was the Government. It was the first refinery built in that country and it basically satisfied their demand at the time.

They had an increase in GNP that was phenomenal, had an increase in energy requirement that was unbelievable, even more than that of Japan. So that over a matter of 6 or 7 or 8 years this had grown, this 25,000 barrels a day of product made, had grown by a factor of 10 or 11. So, between 1963 and 1970 our refining capacity went from—

ours and the Governments—went from 25,000 barrels a day to 250,000 barrels, and we increased tenfold.

In the meantime, two other oil companies had come in and built big refineries themselves. We were building, we were involved with the Government in a fertilizer plant so they would not have to import fertilizer, at the strong recommendation of U.S. AID authorities and Agriculture. We had been sort of persuaded to expand into the petrochemicals. We made rather large investments there to help them out as much as anything else, I suppose. We engaged in a large shipbuilding program in Korea. We got competitive prices, but a large shipbuilding program. In another rather common practice, in order to enable other industries and big users of energy to expand we had loaned money in to the cement industry and power industry, a very common practice. So that in about 7 or 8 years we had gone from an investment of \$25 million to an overall investment and exposure in excess of \$300 million.

U.S. GOVERNMENT INSURANCE

Senator CHURCH. And how much of that \$300 million is covered by insurance furnished to you by the Government of the United States?

Mr. DORSEY. I do not know at the moment. It has varied because the United States has varied its policies and rules over the period of time. It could be zero at the moment. I do not know but I would be glad to furnish the information. I know OPIC. I talked with them some 2 years ago and had the impression we did not have a great deal at that time.

Senator CHURCH. We have partial information but we do not have the complete information about the current risk exposure of the U.S. Government with respect to this investment.

We would appreciate it if your company would furnish us with current and complete information.

[The information referred to follows:]

SECTION A—GULF'S INVESTMENTS IN KOREA—THOSE CARRYING AID/OPIC COVERAGE

1. Korea Oil Corp.

A. INVESTMENT

Equity

(1) \$4.8 million under Stock Subscription Agreement dated Sept. 23, 1963—for 25% equity of KOCO.

(2) \$25 million under Second Stock Subscription Agreement dated June 19, 1970 by which Gulf's equity in KOCO increased to 50%.

Loans

\$20 million under Agreement dated 9/23/63 \$30 million under loan Agreements dated Aug. 3, 1967.

\$25.1 million under loan Agreements dated June 19, 1970.

Use of funds

Under 1963 agreements—construction of refinery.

Under 1967 agreements—construction of Naptha cracker, terminal and buoy facilities.

Under 1970 agreements—expansion of refinery.

B. OPIC COVERAGE

The maximum coverage was taken during the period 1964 to 1970. The maximum coverage allowable for equity investments was 200% for inconvertibility and expropriation and 100% for war risk. Gulf reached an understanding with OPIC, which is contained in a letter agreement dated March, 1917, whereby OPIC insurance would be available for its investments in the refinery expansion providing a reduction took place in the amount of OPIC insurance for Gulf's existing investments in Korea.

In 1972 and 1973, the maximum amount of OPIC coverage selected by Gulf was substantially reduced in accordance with a new corporate policy. This policy stated that the following amounts of insurance should be purchased:

(1) to cover the risk of inconvertibility—three years expected dividends for Gulf's equity investment and the sum of three years payments of principal plus interest on Gulf's loans to Korean companies.

(2) to cover risk of expropriation—a nominal amount which would be sufficient to involve OPIC in any dispute with the Government of Korea.

(3) to cover war risk—In order to cover the risk of sabotage, the amount of current coverage taken corresponded to the cost of the most expensive single piece of equipment in the refinery complex. The maximum amount selected corresponded to the ceiling established under the OPIC contract.

In 1974/1975, due to the deteriorating balance of payments and economic situation in Korea, the amount of insurance placed under the Current Section of the OPIC contract corresponded to the Maximum amount of insurance that Gulf could obtain. This situation differed to some extent from earlier years, where the maximum insurance was divided between the Current and Standby Sections of the contract. At the beginning of each contract year, we decide internally how much of the maximum insurance should be placed in the Current Section and how much in the Standby Section. The amount of any claim against OPIC is limited to the amount in the Current Section.

2. *Chinhae Chemical Company*

A. INVESTMENT

Gulf Oil (Great Britain) Ltd., a wholly-owned subsidiary of Gulf Oil Corporation, which is incorporated in the United Kingdom, purchased 50% of the shares of Chinhae for \$10.5 million under a Stock Subscription Contract dated July 7, 1965. On December 23, 1974, Gulf Oil (Great Britain) (GOGB) sold 50% of its 50% interest to International Minerals and Chemical Company.

AID made a loan of the Republic of Korea in the amount of \$24.6 million under an Agreement dated June 11, 1965. The Republic of Korea, in turn, lent Chinhae an equivalent amount in Korean currency.

B. OPIC COVERAGE

The extent of OPIC coverage taken by GOGB and the rationale behind such coverage corresponds very closely to that of Gulf Oil Corporation's equity investment in Korea Oil Corporation, namely, maximum coverage years 1965 through 1970, a substantial reduction in accordance with our agreement with OPIC of March, 1971 and a further reduction in 1972/1973 in accordance with the new corporate policy.

In December, 1974, the purchaser of GOGB's shares acquired, with the consent of OPIC, 50% of GOGB's OPIC coverage.

3. Gulf Oil Corporation Loans to Companies Which Are In No Way Related To Gulf

All the loans mentioned below were made as an incentive for the borrower to enter into long-term fuel oil purchase contracts with Korea Oil Corporation, who in turn purchased the crude oil from Gulf.

- i. \$8 million to Ssang Yong Cement Company under an agreement dated July 7, 1969.
- ii. \$5 million to Tonghae Electric Company under an agreement dated July 30, 1969.
- iii. \$30 million to Korea Electric Company under an agreement dated February 27, 1969.

OPIC COVERAGE

In 1969 and 1970 the maximum amount of OPIC insurance was obtained for these loans. This insurance encompassed convertibility, expropriation and war risk coverage. Under the March, 1971 agreement with OPIC, the insurance was reduced to cover inconvertibility only. The amounts of insurance taken was reduced in 1973 in accordance with the previously described corporate policy. The amounts included in the Current Section of the contracts were increased to the maximum possible in 1975 as a result of deteriorating balance of payments position of Korea.

SECTION B—GULF INVESTMENTS/LOANS IN KOREA WHICH DO NOT CARRY OPIC INSURANCE

1. A-JIN CHEMICAL COMPANY, LTD.

Under agreement signed May 5, 1966, U-Jin and Gulf Oil agreed to form a joint venture company (A-Jin) to manufacture polyethylene bags. During 1977, Gulf (Gulf Oil Great Britain) purchased a total of 85,350 shares for a total cost of \$311,945.

2. KOREAN LUBRICANTS COMPANY, LTD.

On December 7, 1968, Korea Oil Corporation (KOCO) and Gulf agreed to form a joint venture company to construct, own and operate a lubricating oil and grease manufacturing plant. This project never reached fruition. As originally structured, Gulf would have put up \$5 million in equity, loaned \$5 million to KOCO (which KOCO would contribute as equity), and loaned \$30 million to the new company.

3. HEUNG KUK SANG SA

Under an agreement dated July 24, 1967, Gulf made an equity contribution of \$.5 million to KHSS, and loaned an additional \$1.5 million. In July, 1969, Gulf contributed an additional \$2 million in equity (to increase ownership to 50%) and made a \$5.8 million loan. HKSS is a marketing company. In 1972, Gulf sold its 50% interest in KOCO.

4. KOREAN FLAG TANKERS

Gulf currently has two VLCC tankers under long-term charter with a capitalized value of approximately \$52 million. The tankers are financed via loans from Gulf.

In addition, Gulf has three vessels, each of less than 50,000 D.W.Tons, under charter. The remaining payments under these charters, all of which expire in 1975, will be some \$3.6 million.

OPIC—EXISTING CONTRACTS OF GUARANTEE

[Key: C=convertibility; E=expropriation; WR=war risk; E=equity; L=loan]

Contract date	Contract No.	Type of coverage	Equity or loan	Maximum	Current coverage
KOCO:					
Nov. 8.....	1588 AA	C	E	\$7,500,000	\$7,500,000
Do.....	1589 AB	C	L	20,000,000	20,000,000
Do.....	1590 BA	E	E	3,200,000	3,200,000
Do.....	1591 BB	E	E	17,000,000	17,000,000
Do.....	1592 CC	WR	E. & L	40,000,000	10,000,000
Old KOCO total.....				87,700,000	57,000,000
Mar. 9:					
Do.....	8031 AA	C	E	10,000,000	10,000,000
Do.....	8031 BA	C	L	10,800,000	10,800,000
Do.....	8031 AB	E	E	4,000,000	4,000,000
Do.....	8031 BB	E	L	4,000,000	4,000,000
Do.....	8031 AC	WR	E	9,000,000	9,000,000
Do.....	8031 BC	WR	L	11,000,000	11,000,000
New KOCO total.....				48,800,000	48,800,000
KOCO total.....				136,500,000	106,500,000
Korea Electric: Apr. 22.....	6292 AB	C	L	16,425,000	16,425,000
Ssang Yong: Jan. 16.....	7018 AB	C	L	3,995,000	3,995,000
Tonghae (Now Korea Electric): Jan. 16.....	7019 AB	C	L	2,497,000	2,497,000
Chinhae:					
Sept. 3.....	5350 AA	C	E	5,250,000	1,700,000
Do.....	5350 BA	E	E	1,000,000	250,000
Do.....	5350 CA	WR	E	1,000,000	1,000,000
Chinhae total.....				7,250,000	2,950,000
Total Korea.....				166,667,000	132,367,000

MONEYS TO FOREIGN OFFICIALS IN THE UNITED STATES

Senator CHURCH. I have one other question to raise with you. In your testimony you referred to the money that had been funneled through the Bahamas bank, and you have given us a full accounting insofar as you are able at this time, what was done with that money abroad. But from your statement, approximately half of the money came back into the United States.

Now you have given us no accounting of that part of the money, and my question is, this being a Foreign Relations Subcommittee and our principal interest being impact of multinational corporations and their policies upon our foreign policy—I want to ask you did any of the money that came back into the United States go to foreign officials in Washington or any other foreign official in any other part of the United States?

Mr. DORSEY. Not that I know of, certainly not.

Senator CHURCH. Did any of it, to your knowledge, go within the country for the purpose of influencing our foreign policy abroad?

Mr. DORSEY. Not to my knowledge, no.

Senator CHURCH. The only direct undertaking of that kind then relates to what you have already testified to in connection with the Arab public relations campaign that Gulf helped finance.

Mr. DORSEY. I think that is right.

Senator CHURCH. I think you have indicated any further information that may surface as a result of the ongoing investigation would be made available to the committee.

Mr. DORSEY. You may be assured of that.

Senator CHURCH. Yes, I am through with my questions, Mr. Dorsey, but before I turn to whatever further questions there may be, I want to tell you that I think you have been exceedingly forthright today and that your responses to the questions of this committee have been candid, have all the appearances of having been, and I believe them to be candid and direct, and I want to express the appreciation of the committee for the way you have conducted yourself in this hearing.

Senator Percy.

SENATOR PERCY'S COMMENTS

Senator PERCY. I would like to follow up on two of the comments that Senator Clark has made. One, the quotation that he just read from the Washington Post.

One of the last trips I made to South Korea I reported back to the Senate my deep concern about internal conditions, the use of the internal CIA in Korea, the stamping out or closing down of campuses, and in a conversation that I had with President Park I asked why when he made the unusual move of revising the Constitution, so that he could have another term of office, which was barred by the present Constitution, put forth a new Constitution and did not permit any opposition to it. From everything I could see, he would have won the new Constitution by a 60 to 65 to 70 percent margin, yet he won with a 91 percent margin, in a great deal of turmoil because there was no opposition permitted of any kind. And I asked him why, why would you not have been better to permit opposition and won a clear majority without the criticism that would flow, and he answered it would be just too confusing to the people to have opposition permitted.

And it is confusing in a democracy. A republic is a confusing form of government, I suppose, to many people, but we think it is well worth fighting for.

One of the corrosive parts of the problem is that it does permit a great deal of freedom. Why I am so deeply concerned about a statement of policy that the corporate head has only to look to the interest of the stockholders without taking into account the country interest, you could use then that philosophy too, in Cook County, pay off the assessor to get a tax reduction, which would do injury to the schools, have the corporations pay less amounts than they should for property assessment and property taxes, for education purposes, and place a much greater burden on individual citizens.

I want to give you the chance to clarify that that is not a standard that should then be used in any instance for corporate decisionmaking, that that is not the only way you make corporate decisions, that you do look at the overall interest.

Mr. DORSEY. Well, I think that is obviously true. I think that is obviously true. As a matter of fact, I have talked on this subject before at great length and I have made a speech on this subject. As a matter of fact, I am rather proud of it and I will be happy to send you a copy of it if you would like.

Senator PERCY. I would very much like to have it.

[The information referred to follows:]

BUSINESS RESPONSIBILITY TO SOCIETY

(Remarks by B. R. Dorsey, president, Gulf Oil Corp., to Pittsburgh Chapter, National Association of Accountants, April 15, 1970)

This is indeed a special opportunity you have given me here tonight. And I am grateful—because the times demand that businessmen present their views—not only about how we *see* our responsibility to society, but most importantly—how we are *fulfilling* that responsibility.

Not that businessmen have not spoken on this subject before. But our views of society have changed over the years—as society has changed. Today, society is a world concept. From the day man first looked upon his planet from outer space, his perspective became dramatically, and permanently, broadened. Today, we see the entirety of our world. We see the extremes within our global society: the beauty of the natural environment, scarred by the ugly residue of productive nations; personal wealth of some and the poverty of many, one nation reaching the moon while another remains in the stone age, all of mankind seeking peace yet many trapped in war. Any discussion of the responsibility of business to today's society must deal with the problems of these extremes—pollution, poverty, and war. The traditional responsibilities business has to society have been long established by the nature of our free enterprise system: 1. the responsibility to provide profits to our shareholder investors, 2. to produce quality products desirable to customers and fairly priced, to advertise them honestly, 3. to provide employment and to reward employees for their contribution to the success of the enterprise, 4. to contribute a percentage of our profits directly to the communities in which we operate, and 5. to otherwise retain the goodwill of the local and national publics that permit us to conduct our business.

These have been, and continue to be, quite basic responsibilities that business must always meet. Essentially, these have been the full scope of our responsibility—until now. Today, maximum financial gain, the historical number one objective, drops to second place whenever it conflicts with the well-being of society. We now must examine the proposition that the *first* responsibility of business is to operate for the *well-being* of society. As financial managers, you are the best witnesses of this shift in priorities. Your companies' obligations to society are a growing cost of doing business—not only by taxes and cash contributions, but also by capital and people invested in meeting public needs—or meeting the more costly reactions to *adverse* public opinion. Take any new profit-expanding action proposed by your company. The potential profit of that action invariably is whittled downward by the cost of meeting the company's obligations to the public. I'm sure you've seen many profit proposals defeated in recent years because the social costs, often made apparent by public pressure, eliminated the potential profit. This is the major shift of responsibility that has occurred for business and it is the challenge that we face.

How do we meet this challenge? Our first step, of course, is to understand—and help the rest of society to understand—that business not only is a part of society, but that it can and does play a leading role in improving it. Now that we're placed deep inside our society, let's look around to see what today's society is all about. At first glance, the picture appears chaotic. To understand it, we must unravel the chaotic condition.

Chaos comes when the world changes faster than its people do. And that is our present condition. We're living in an environment of change. Many forces are at work, making society more dynamic and complex than at any time in our history—unsurpassed wealth and education, *mobility* reaching the speed of sound, everybody watching—the instant mass transmission of events, of reactions to those events, of reactions to the reactions. All news is now. Any event, good or bad, is witnessed by all, judged by all, and too often, judged incorrectly. Today's paradox is, that while mankind can transmit its ideas worldwide, it seems to misunderstand everything it receives. While emotion must be raised before society's mistakes can become public discussions, the same emotion scrambles our ability to communicate. Our emotions seek to transfer our guilt for the mistakes to the backs of our favorite targets. Yet, any social wrong is everyone's responsibility.

Public issues shift in priority. Today it's ecology. Yesterday it was poverty. Last week it was war. Yet, all must be dealt with today and tomorrow, because they are far from being resolved. These are the key issues against which business is being judged today. Our jury is the public. And the public is flexing its

muscles. Business has always recognized the power of the public—especially in the market place. But now the *public* is recognizing its power. Motivated by a long-standing feeling that they had lost control, stimulated by their recent successes at speeding changes toward peace and racial equality, today's public—society—you and I—now have a new sense of confidence that we really can affect change. Successful change stimulates more change.

And if there is a short supply of leadership for that change—political, industrial, civic, and social leadership, that chain reaction of change will destroy instead of build society. Leadership is needed to direct this chain reaction for the same reason it's needed to direct the atomic one.

I see only one new move businessmen must take to meet the needs of today's society. To paraphrase the current idiom—we must tune in, turn on, and *drop in*, not *out*. Competitive pressures have held too much of our attention to the enterprise. We've seen too little of the world around us. Today, the world *around* us is our job. As business managers, we must now tune in to society's needs, turn on our knowhow to tackle those needs, drop into society to help resolve them.

To use language more comfortable to me, today's manager must be sufficiently sensitive and skilled to be the leader of change—to anticipate and respond to changing social needs.

A major result of tuning in, turning on, and dropping in will be an increasing awareness by the public of the contributions business *is* making to society. A solid dialogue between the public and business is long overdue. It's a reversal of that tree falling without any sound because no one heard it. Too often the actions business takes for society don't exist because we failed to utter a sound. Well, here I am on a podium. And you seem to be listening. So I'm about to sound off a little later on behalf of Gulf Oil Corporation. Let's limit ourselves for the moment to looking at those priority needs of society today—the most important ones as recognized by society right now—at (7:30) p.m. on April 15, 1970.

First is our obligation to the ecological balance—that mutual relationship between life and our environment; *then* the elimination of poverty—in our own nation's urban centers as well as in developing nations; and *finally*, the attainment of world peace through international understanding, to stop wasting our life and material resources.

We know that our spaceship, Earth, has finite resources; that nature can accommodate a certain amount of waste materials and maintain a balanced, restorable environment. But the residue of our productive economy is overloading the system. Determining who is to blame is not only impossible, it offers no solutions. Is it the consumer's demand for more? Is it industry's technological expansion to supply the demand? Is it the population explosion—the concentration of the populace in our urban centers? Who will stop using detergents, weed killers, convenience packaging? Who will give up his car or stop using trains, busses, planes, and trucks? Who will stop heating his home or using electricity from the power plant? Who will shut down his factory—or wants the factory where he works to close down? Who will decide not to have children? And who will move a hundred miles from where he works?

Society today is determined to solve the pollution problem. And I believe society is willing to pay the price for this solution—all members of society—you, me, shareholders, consumers, citizens—all the labels we call ourselves—all of us are willing to clean up our house. We've paid a high price to get where we are. We're ready to pay the even higher price to put us back into harmony with our environment.

The rewards will be great—a continued productive economy, yet with clean air to breathe, a pleasant view from here to the horizon, the clean waters our plant and animal life require, and for the recreation our growing leisure time desires. This is society's goal. The positive results of such an environment on our economy, as well as our physical and mental health, are unmeasurable. There are three simultaneous actions necessary for us to reach this goal: 1. the *first* is to continue developing a body of interdisciplinary knowledge about our environment and the technology required to balance the residue of our economy with nature's regenerative powers. 2. We must create or improve *pollution standards* along with the necessary controlling legislation to implement this knowledge as it is increased. 3. The *third concurrent* move is to educate every member of society—each of us—as to our individual responsibility to the environment. All three of these moves can and must be made now. We can't afford to wait until we have more knowledge before we begin setting standards

and educating each other. All three are being done now, but in a spotty and uncoordinated way. Advertising has been very effective in driving the litterbug towards extinction. Smoky the Bear is doing the same job on the firebug. A great body of technical knowledge already has been developed in the fields of ecology and pollution abatement. Some communities and regions in our nation already have learned a great deal about their own problems and instituted standards and corrective legislation.

I believe business will be the greatest force in the elimination of pollution.

Industry has the largest body of knowledge about pollution abatement technology, both in its production techniques and in the products it produces that can contribute to or reduce pollution. Our first responsibility then, is to continue developing this body of knowledge and apply it to our production techniques and to the products we make. Concurrently, we must work with all local, area, state, and federal agencies to develop workable standards and legislation to use this technology. Often, one company cannot apply this knowledge because the cost of the application would make its facility unprofitable unless the price of its products could be raised. A *unilateral price increase* would be financial suicide because the company's products would be more expensive than those of his competitors. Responsible federal legislation, however, could require all companies to meet workable standards simultaneously and no company would be at a competitive disadvantage. There are already pollution abatement committees in every industry trade association working with the public and community organizations and the larger corporations have assigned full-time executives to the job of coordinating abatement efforts.

As a member of the oil industry, I can deal more specifically with its responsibilities to pollution abatement. The industry was born in this country in 1859 when the first oil well came in. Since then, the industry's ability to find oil and the consumer's capacity to use it have made petroleum products our largest source of energy, supplying about 75% of our nation's energy needs—for transportation, for cooking, for light, heating, manufacturing, agriculture, and the power generators that supply our electricity.

During the next 10 years the oil industry is going to have to invest more than \$200 billion to provide for the growing free-world demand for petroleum during that period. It's expected to increase by some 25 million barrels per day. That means that if the industry is to maintain the current balance of reserves to production it will have to discover about 40 billion barrels of new oil reserves each year, build the equivalent of another 900 of the current hundred-thousand-ton tankers, and construct 250 new refineries, each with an average capacity of 100,000 barrels per day.

Conservation practices began early in the industry's history. The first need was to conserve the natural resource we were drilling for—the oil itself. By 1900 experience provided new ways to reduce waste. Since then many technological advances have been made in locating, drilling, and refining oil for maximum efficient use of the resource. The industry cooperated with state and federal governments to institute state and federal conservation laws. The first was passed here in Pennsylvania in 1878. So we're not newcomers to the field of conservation. And we're certainly not newcomers to the field of pollution abatement. It's the very heart of our business. Oil and its by-products are real and potential polluters of our air and water. Every drop of oil that is wasted is a loss item to an oil company. So we have a very greedy self-interest in preventing such losses. An oil company can spend over a hundred million dollars to locate a new oil field—the costs of exploration, drilling, the ratio of one commercially successful find out of 50 wells drilled, the price of land leases. It's no wonder that whenever we find it, we don't want any of it wasted. Accidents do occur, however, and more often as growing demand forces more production.

Our increasing knowledge of geology and production techniques has kept these accidents to a minimum, although the rush of recent publicity tends to obscure that fact. An on-shore oil spill can be contained relatively easily. But off-shore spills are harder to handle. And needless to say, when these spills come ashore, they have tragic consequences on marine and bird life as well as on the beauty and recreational uses of our beaches. It is small consolation to know that of the 8,000 off-shore wells drilled so far, less than 30 have had spills, only 2 of which resulted in serious pollution damage. The fact of the matter is, this type of accident must be prevented. A great deal of knowledge about off-shore drilling has been developed to reduce accidents. Oil producers invested \$128 million during 1966 and '67 alone for capital equipment designed to prevent spills from off-shore drilling. Another \$55.5 million was spent just to operate and main-

tain this equipment. Experience so far has indicated that even hurricanes and geological faults don't have to result in oil spills. It is through this experience and investment that the oil industry is going to be able to continue reducing, and eventually, we hope, eliminate them entirely. It is necessary to gain additional knowledge about this problem because the chemical and physical qualities of oil differ from field to field. And weather and water conditions differ from one spot to another and from one moment to the next.

These varying conditions also add to the pollution abatement problems of a tanker spill. Oil not only powers and lubricates every motorized ocean-going vessel, it also is the major cargo hauled on the seas. Crude oil alone accounts for more than 50% of the world's ocean cargo tonnage with more than 4,000 tankers throughout the world hauling well over 600 million tons of crude a year.

This huge expansion of oil commerce has been relatively recent. Before the 1960's there was little concern and few restrictions on tanker operators who washed and flushed empty tanks and dumped oilyballast at sea. Tankers were small. Traffic was light. Spills of refined products vaporized or disappeared into the sea. Bacterial action absorbed the crude oil. But with the increasing traffic the international oil industry began creating and adopting techniques to reduce pollution. Special techniques were adopted in 1962 that have reduced oil spills from these operations by some 80%, from 2 million tons to less than 400,000 a year. But that's not the only way oil spills occur at sea. Maritime accidents involving tankers have increased as the number of tankers have grown. But the numbers haven't grown as fast as their size, from the 16,500-ton T-2 tanker of World War II, to the new 326,000-ton tankers in Gulf's fleet. We now have six of these in operation and five more are now being built. These larger tankers have proved to be all but impervious to bad weather and to handle better than smaller tankers, both at sea and in docking. They are fitted with the very best of navigational equipment. And their capacity to deliver 2,300,000 barrels of crude provides substantial economies. We believe these economies will tend to phase out the older tankers and, thereby, reduce the industry's rate still further.

Gulf is spending about \$30 million each year on pollution abatement research and improved processes and products. This investment has been growing over the past several decades, many years before there was any political concern about the problem. Many of our developments also advance the efficiency of our refining operations; others just reduced pollution.

And we are not alone. The U.S. oil industry spent a total of almost \$400 million in air and water conservation in 1968. The industry's past expenditures have resulted in many improvements currently in wide use. Floating roofs reduce evaporation from tanks. Stack gas no longer pollutes the air. Converters recycle the gasses through the burning system. Flaming stack tips burn off the rest. Today's refineries actually contribute clean water to our planet. We draw a tremendous amount of water from streams and rivers for refinery cooling systems. This water is purified before we can use it. Then it's passed into the atmosphere as steam. The impurities are piped into API separators to be skimmed off or chemically neutralized.

One of Gulf's major research investments, a 30-year, \$15 million effort, has resulted in the first successful operation of a refinery using Gulf's HDS process. Located in Japan, this system converts high-sulphur residual oils to liquid fuels containing as little as 1% of sulphur. Use of this fuel will decrease dramatically the emission of sulphur oxides into the atmosphere by industrial and power generating plants.

A significant amount of the nation's air pollution comes from our automobile exhausts. The automobile industry and the oil industry have acquired the technology to correct it. Of the many directions that are open the one we are heading toward is the reduction of compression ratios of engines so that they can operate on a gasoline without lead. Removal of the lead, which itself is not considered a significant pollutant, will permit the use of more sophisticated emission control devices on automobiles. Proposed federal guidelines call for reducing emissions of pollutants from autos by up to 93% by 1980, regardless of the cost or effect on the performance of cars.

Gulf has stated that we will supply a suitable gasoline as soon as it may be required. Indications are that this will begin within a year.

The greatest problem faced in reducing automotive exhaust pollution is the cost, not the availability of technology. Consumers today are paying more for their new cars' pollution abatement systems required by existing federal stand-

ards. The cost of manufacturing the lead-free fuel and the next generation of emission control devices will jack up the prices to consumers still further.

But the people in this nation are ready to pay the price for clean air. We're trading up on our quality of life.

Poverty, like pollution, is everyone's responsibility. In fact, it's my belief that the issues of poverty and pollution are drawing this nation together. The generation gap closes on these two issues.

But of the two, poverty is the one problem business already has the skill to resolve. The success story behind the National Alliance of Businessmen's JOBS program is witness to this. Businessmen in 131 cities have placed 333,000 disadvantaged men and women, hired, trained, or in training for promising careers. Gulf joined the Alliance immediately and urges all companies to join—large or small. It's not only humanitarian, it's good business. Gulf actually started its training program for the disadvantaged before the Alliance was created.

The concept of black capitalism has also demonstrated itself to be successful. Be it black capitalism, or red, or yellow, or brown, or white, it has worked for Gulf for many years.

Almost all of our 31,000 service stations in the U.S. are operated by independent businessmen. Gulf provides every dealer with extensive and continuous training. Eighteen of the nation's major oil companies have pledged to the U.S. Department of Commerce to increase substantially the number of minority-owned service stations over the next five years. The goal is 28,000 minority-owned stations, which represents the relative size of the minority population. According to our most recent survey, Gulf already is on target with 2,166 stations owned or operated by minority group members. Of course, we should be. Gulf has been providing salaries to minority members while they have been in training for station operation since 1945.

There are scores of other examples that we or any company could relate. But the point is made. Black or any color capitalism—works just as well as white capitalism.

The greatest goal business can work to achieve is world peace. I might add—world peace through international understanding and healthy economic growth—because this is exactly how business can contribute—by increasing the flow of goods, services, and people-to-people communication among the nations of the world.

Enlightened international corporations are the neutral force entwining nations, contributing to the economies of the haves, increasing the productive powers of the have-nots; contributing to housing, schools, dams, roads, and forming commercial sea, air, and land bridges between nations.

A Business Peace Corps is the operating style of today's international corporations.

Gone are the days when we insisted upon complete self ownership and management of foreign subsidiaries. Although American business continues to hold full ownership of many of its overseas ventures, most are now operated by nationals of the host country. And more and more new ventures are being created in partnership with local governments, local business, which often hold the majority interest. Today's theory is that it's better to provide the technology and business know-how through minority interest than not to contribute at all.

The international oil industry is a good example of what I mean about a business peace corps. It's also the best example I can describe accurately. The product, itself, provides a vital key to world peace. Petroleum is the life blood of every nation's economy. Oil and natural gas supply our trucks, busses, planes, power generators, industry, agriculture. 75% of our nation's energy needs. Yet, oil is where nature put it. And it hasn't been put in every nation's backyard; certainly not in sufficient quantity for most nations to be self-sufficient. Some nations, like Kuwait, have an oversupply. They are dependent upon other nations for markets. Oil export is the principal contributor to these countries' economies. Others, like the European nations, have an insufficient supply. They depend on continuing oil imports from those with an abundant supply. The U.S., fortunately, has been self-sufficient, although this independence has a limited future. Where our oceans *once* provided us with our best defense from attack, our oil supply has been the significant factor in our national security for the last 50 years.

Gulf now operates in 60 free-world countries. We are producing oil in 9 of these countries and are now exploring for oil in more than 30. Interestingly, the largest new oil fields are located in the world's developing countries.

As legal corporate entities, international companies remain politically neutral. As human beings, each of us holds a whole range of attitudes about the governments with which we deal. Within the limitations of being a guest in economically developing nations, we bring benefits directly to the citizens of those nations. We do our best to preserve the natural environment. We provide capital. We provide skills and know-how. We provide jobs and training. And these benefits are most important to the emerging nations. Invariably, because an American company is doing business with a developing country, its citizens are better off than before. Their earning power is improved. They eat better, live more comfortably, get a better education, become better equipped to contribute toward improving the social well being of their nation. Experience has shown that improved productivity has a great impact on the political style of a nation. Government is the result of an economic base. Only by improving that economic base is there any substantial social improvement in government. In our lifetimes we have seen the territories that gained the greatest volume of foreign investments have been among the first to become self-governing.

Gulf has invested many billions of dollars in its foreign operations, much of it in taxes, leases, and royalties to the host governments, direct contributions to education and housing, construction of roads, bridges, schools, hospitals, and as salaries for employees. And the vast majority of employees are nationals.

Venezuela provides an excellent example of the benefits from foreign investment. Today Venezuela is one of the largest oil exporting countries in the world. Many of the notable advances made in Venezuela have occurred in the past 40 years, coincident with the discovery of petroleum in vast quantities in Lake Maracaibo.

From the start, oil companies provided educators, built schools, housing, highways, air fields, hospitals; and provided scholarships there and abroad. Illiteracy has dropped from 85% to less than 10%. Income to the government from royalties, taxes and duties topped a billion dollars a year by the mid-60's. Local business and personal income from the industry's practice to purchase locally and from the tens of thousands of Venezuelans on the payrolls has radiated outward to form a solid foundation for the nation's economy. In Venezuela, 94% of our employees now are Venezuelans, including the president. At the refinery, sons of the many illiterate men first hired now hold college degrees and top management positions.

This style of doing business abroad is being repeated by hundreds of U.S. corporations in virtually every nation in the free world. The international language of commerce is spoken and heard by all. Emerging nations are acquiring a sense of respect for their advancement and hope for their future, and respect from the nations with which they trade. As their educational levels grow, their governments modernize and mature. World trade becomes a stabilizing force as nations become increasingly interdependent for goods and services.

With time and the capital, energies and know-how of international business, the criss-crossing air and sea lanes of commerce will create a global web sufficiently strong to assure the peaceful world we seek.

The new responsibilities business has for today's global society are much more complex, almost revolutionary when compared to those we faced a few decades ago. They cannot be fulfilled unless everyone is involved. Businessmen must stimulate every employee toward community involvement—whether the community is Pittsburgh or Angola. Management must take the initiative to aid employees in locating areas in which they may be of service, give recognition to those who become involved, provide them with a fair amount of time and company facilities that may be helpful. And we must increase our dialogue with the public, which knows too little today about our activities, our problems, or our contributions to society. Public ignorance of business practices has created a growing reservoir of suspicion about our intentions. The half truths and distortions have become the weapons of those who attack us. The small group of extremists win broader support for every moment we ignore an erroneous charge. We are accused of war profiteering on page one of the same newspaper whose business page reports a stock market slump due to a war escalation. We are accused of racism when, in fact, we recognized long ago that discriminatory practices deter a company from attracting its greatest asset—talented and skilled employees. They claim we want the poor to remain poor, when we are concentrating our resources on the elimination of poverty, both for humanitarian reasons, and because employment checks increase our profits and welfare checks reduce them.

We are accused of raping emerging nations of their natural resources when, in fact, the *nation* reaps the major share of benefit from the resource it *could not* unlock without us. We are labeled the source of the world's pollution when, in fact, all mankind is contributing and it is our technology which is the vital key to its eventual elimination.

Business must communicate this information to the public with as much effectiveness as those who are now trying to destroy our economic system. Today, the society's majority is hearing only one voice. Tomorrow there could be only one voice to hear. We must get out of our office and board rooms and get into our communities. This is the only way we truly can meet society's needs and earn its understanding and support—by recognizing and reacting to changing social needs and by communicating our business goals, problems, and actions. The result will be the happy goal businessmen have always put in first place—a progressively improving society in which we live—and a reasonably profitable growth for our enterprises.

Mr. DORSEY. It is a very complex and difficult world when you go out on your own as a business person, as you well know.

Senator CHURCH. May I say for the information of the committee, there are two rollcall votes back to back. The first one is underway.

BOARD'S KNOWLEDGE OF BAHAMAS' FUND

Senator PERCY. I believe you have indicated. I am not sure it was in public testimony, at any time has your board of directors been advised until the disclosure came out, that these contributions were being made abroad and there was the special fund set up in the Bahamas, or any corporate entity that you might have within the board, an executive committee or a finance committee? Was there any advice given by management of the board prior to the public revelation?

Mr. DORSEY. That is correct.

Senator PERCY. There was not?

Mr. DORSEY. There was not.

Senator PERCY. So it was entirely kept.

Mr. Dorsey, could you indicate why you felt that that was not a matter that should have been discussed by the board and policy established at that level?

Mr. DORSEY. Well, it would appear that there are two questions. If you asked me about Korea, the thing that I know something about, the thing that I was involved in, the area in which I made the decision, it was within my authority within the corporation to make the expenditure. It was an expenditure of money and my authority for expenditures, for expenses, are greater than the \$3 million, so it was not necessary under the company policy that I do so.

If you are asking me why the original fund was set up in the Bahamas, I simply do not know, it was long before my time and I do not know.

Senator PERCY. Because of the irreparable damage to Gulf as a result of these revelations, do you think it would be wise for the boards and board members of multinationals in this country, and abroad, to question management as to whether such practices are being carried on in the company and establish a firm policy where the responsibility would be at the board level then?

Mr. DORSEY. I would recommend it very highly.

Senator PERCY. On the top of page 19, bottom of 18, you mentioned that your investigation discloses the starting in 1960 Bahamas Exploration Co. was used for "bookkeeping and accounting purposes to

transfer funds for use as contributions, gifts, entertainment and other expenses to the United States." Could you expand on what kind of entertainment and what other types of expenses in the miscellaneous category have been revealed to you now as a result of your investigation?

Mr. DORSEY. I think I am really quoting more or less from what was said, is that not correct?

Mr. MINKS. Right. This is language which appears in our consent and undertaking. This is language which generally describes the categories of expenditures which were made from this fund. These categories are being more specifically defined by the review committee and identified by the review committee.

Senator PERCY. You do not have information yet from the review committee?

Mr. DORSEY. No. They talked to a great many people but they have not talked to me one way or the other.

MR. DEERING NOT TO TESTIFY

Senator CHURCH. Excuse me, may I just announce at this time, because I have to go vote. Senator, you conclude the hearing, if you will, that Mr. Deering will not be called. His presence will be excused because Mr. Dorsey's statement has covered the whole field adequately and well.

Mr. DORSEY. Thank you.

QUESTIONS FROM SENATOR CASE

Senator PERCY. Mr. Chairman, Senator Case has a number of questions here which we can either put in the record or I would be very happy, if he is not able to leave the floor, and if Mr. Dorsey is able to stay, I would be happy to come back. It might be easier to do it right now.

Senator CHURCH. You work that out with Mr. Dorsey. You are now in charge.

Senator PERCY. I will finish up when we get five bells and I will ask Senator Case whether he wants the questions answered now. I rather think he would, and we would not be leaving things for you to do afterward.

THE TAX EFFECT

On page 19, you have indicated that the fund transmitted to Bahamas Exploration were deposited in a new bank account and entered as deferred charges as written off as expenses during the current year. Would you care to comment on what tax effect that has then on the writeoff? Does it affect the tax returns of the United States of America, or any foreign country, and has it been revealed there was any illegality in the type of expenses incurred and, therefore, the writeoff?

Mr. DORSEY. Well, I have been advised, I have every reason to think it is absolutely true that there are no tax consequences on any of these transactions that have been made. They were not claimed for tax purposes as expenses for tax purposes. There was no tax consequences.

Senator PERCY. I am glad to hear that.

Mr. DORSEY. For which I am thankful to whomever set it up in the first place, at least they did one thing right.

Senator PERCY. There was never an attempt to write off as business expenses for tax purposes. These were capital contributions, in a sense?

Mr. DORSEY. Yes, sir.

GULF'S EARNINGS FROM KOREA

Senator PERCY. You indicated that your investment totaled \$300 million. What have been recent earnings from Korea on that investment? Have you broken that out in your financial statements at all, or can you tell the committee what your earnings have been in South Korea after taxes?

Mr. DORSEY. No, not precisely. I can probably give you a measure of it. Our total exposure at one time was \$300 million. We have been there for 12 years and I think that we have yet to recover about \$150 million. So, one way or another we have recovered over 15 years about half the money we have invested, which does not suggest a very high rate of return.

RECESS BY COMMITTEE FOR VOTE

Senator PERCY. The committee will recess for a period of about 20 minutes while we take these two votes and then be back.

Mr. Dorsey, is it convenient for you to stay on then for a little bit?

[A recess was taken.]

Senator PERCY. Mr. Dorsey, I think we can move right along and finish this up, we hope with dispatch.

STUDIES MADE BY GULF

In these countries in which you have done business, I presume that you have now made a legal study to determine in which countries the corporate contributions to political candidates or parties are legal or not.

Is it possible for you to furnish for the record to this committee, whatever studies you might have already made? I do not want you to make any special studies. If you have a list of those countries it would help us to know where corporate contributions have been made, or where corporate contributions are illegal? And do you happen to know whether Gulf has made contributions that are now determined illegal in other countries besides South Korea?

GULF'S BOLIVIAN CONTRIBUTION

Is Bolivia the case, or was that an illegal contribution by Bolivian law?

[The information referred to follows:]

[Supplied by Gulf Oil Corp.]

Senator Percy asked if we had made a legal study to determine in which countries the corporate contribution to political candidates or parties are legal or not. We have made no special study of this matter, although our inquiries have confirmed that these contributions were lawful in Canada and England and were unlawful in Korea.

Mr. DORSEY. Yes, sir, I think so.

Senator PERCY. Do you have knowledge whether you have made contributions in other countries that your studies revealed are illegal by the laws of those countries?

Mr. DORSEY. We are still studying that and we are not sure. I have mentioned all the countries I know. There may be other countries turn up but in any event, we are trying to determine the legality or illegality in every country, not that we intend to use the information but—

Senator PERCY. It is fairly standard practice for contributions to be made for the political process in most of the countries in which you do business?

Mr. DORSEY. It is not my impression that it is. It is not my impression.

RELATIONSHIP BETWEEN CONTRIBUTION AND GULF'S INVESTMENT

Senator PERCY. Do you know if the size of the Gulf Oil contribution was considered significant in relation to the total campaign budget of those political activities to which the company contributed? Were you carrying a very large share of the cost of the campaign in Korea or do you have any idea what proportionate share you were carrying?

Mr. DORSEY. I obviously do not because no one would have told me, but I would have presumed that the amount we were asked for or that we finally agreed to must have been borne—I had the impression it bore some relation to our investment and to our importance in the country. But it is only an impression. I would think the others were asked accordingly.

QUESTIONS FROM SENATOR CASE

Senator PERCY. The following questions, Mr. Dorsey, are questions from Senator Case, and I simply ask them in his name.

HOW MANY IN GULF KNEW OF KOREAN PAYMENTS?

How many people within Gulf knew of the payments? In your view, how many people knew about the payments made and their purpose?

Mr. DORSEY. Talking about Korea again?

Senator PERCY. Yes.

Mr. DORSEY. I presume—

Senator PERCY. I would say that the question should be broad enough to include South Korea as well as all other countries where campaign contributions were made?

Let us take Korea first. Be specific about that.

Mr. DORSEY. I am not trying to evade. It is a very difficult question to answer. You never know who is involved in the decisionmaking at any one time in the past. I would think that probably four to six people had knowledge of it within the corporation.

Senator PERCY. That is on the South Korean contributions?

Mr. DORSEY. Yes, sir.

Senator PERCY. Then, taking into account all other contributions to other countries as well and, therefore, their political campaign, how many people in Gulf might have known of the existence of such a fund and payments were being made and for what purpose?

Mr. DORSEY. I would think at any one time not more than four to six. For example, I did not know about the Bolivian matter, al-

though I was in the headquarters office at the time. I did not know it was done by other people and I was not asked or consulted, but I would think in the nature of four to six people at any one time.

GULF'S POLICIES AND DECISIONS CONCERNING CONTRIBUTIONS

Senator PERCY. A question on my own. Was it ever stated as a policy any place, so that people had some leeway, that you had to accommodate yourself, you had to do business in accordance with the local mores and customs, habits, and so forth, therefore, they had the discretion to go ahead but policy had been established at some higher level that this was, if necessary authorized in advance, or when you discovered the Bolivian contributions, for instance, did you feel that it had been made by officers of the company or employees of the company without specific direction and without, in contravention of any policy of the company?

Mr. DORSEY. Well, it was, unfortunately, not in contravention of the policy because there was no policy and that is too bad in itself. I would believe that whoever made the decision about the Bolivian contribution, did it under great pressure and because they did believe it to be in the best interests of the corporation.

I would simply add that we were completely expropriated by the Bolivian Government about 2 or 3 years later, completely and absolutely.

Senator PERCY. Again, on behalf of Senator Case.

In your estimate, how many individuals in the recipient country were aware of the first payment that was made? Did you deal with the very same people at the time the second payment was made? And I think this applies to South Korea, the first payment in 1966, the second in 1971.

Mr. DORSEY. I have no idea how many people in South Korea would have known it. I suspect like most things, they would not talk about it too much, a rather small and select group. And basically, yes, we dealt with, more than one person talked with us, but only about three at most, and I think basically they were the same people in both years.

Senator PERCY. Again, a question of my own. We have various devices for letting a contributor know the top man is going to know about it. Republicans and Democrats have used this system.

They tell you in advance the President will get a list or he will be notified as head of the party the contribution is being made or you will be invited to the White House or there will be a special briefing by Cabinet officials for you, but there is some special attention paid to contributors, we all know that, and under various administrations.

HOW THE CONTRIBUTION WAS MADE

Can you tell the subcommittee what was told to you, if anything, about how this contribution made to Mr. Kim, who is the finance chairman of the party, but who really does not make basic decisions for the Government and is not, as I understand it, a part of the Government. How were you advised that the big people who did make the decisions above Mr. Kim, would know of your contribution?

Mr. DORSEY. After all these years, I cannot say with any exactness precisely what I was told. Obviously, I was, or whoever was involved, would be alternately cajoled and threatened and in a matter like this, and I am sure that somewhere along the line that such a statement was made to me or to some of our people that were involved, but I do not recall it precisely.

Senator PERCY. There is no question though, that probably President Park and other key Government officials would know very definitely about your contribution?

Mr. DORSEY. Well, I cannot say that I had any reason to think they would but I have every reason to believe that I was told that they would, which may be two different things. At least, it turned out that way in our country.

GULF'S ACTIVITIES IN BOLIVIA

Senator PERCY. Again, on behalf of Senator Case, how many people and individuals in Bolivia actually knew of your political contributions there?

Mr. DORSEY. I really do not know. I have only found out about the Bolivian matter in the last week.

GULF'S ACTIVITIES IN ITALY

Senator PERCY. Do you have any knowledge on Italy?

Mr. DORSEY. No, I am sorry, I do not.

Senator PERCY. Do either of your colleagues?

Mr. MINKS. No.

Mr. SEAMANS. No.

THE EXTRA INTEREST FUND IN KOREA

Senator PERCY. In Korea many bank employees must have known of the extra interest fund. Did you have a feeling that the activities and contributions were known or was this payment made in such a way that the information could not have spread among lower level employees in, say, the bank or some place else?

Mr. DORSEY. I really do not know how the Koreans handled the money once it was in their hands.

THE BAHAMAS FUND

Senator PERCY. Senator Case asks have you any reason to believe that any official of the Bahamas Government or private individuals residing in the country, not connected with Gulf Oil, were aware of the payment?

Mr. DORSEY. I would certainly think not.

Senator PERCY. Did you not need a local lawyer or local banker, local auditing company?

Mr. DORSEY. Excuse me, you might be able to help him on that.

Mr. MINKS. Would you please repeat your question, Senator Percy?

Senator PERCY. Have you any reason to believe that any officials of the Bahamian Government or private individuals residing in that country not connected with Gulf Oil were aware of the payments?

Mr. MINKS. Nothing has been revealed to my knowledge, as a result of the investigation to date.

Senator PERCY. Did you have a local lawyer, local banker, a local CPA, that audited you down there that would have knowledge of this fund?

Mr. MINKS. All in with respect to Bahamas exploration? No, we did not.

Senator PERCY. I would be happy to have Senator Case's top staff professional person interrupt because I am not always sure what Senator Case has in mind on some of these questions.

Mrs. LEWIS. We request that you furnish information about this for the record, because it is obvious we are not asking the right people.

Mr. MINKS. I am not quite sure what information you are seeking.

Mrs. LEWIS. Any Bahamian nationals who might have been aware that the payments were made?

Mr. MINKS. I can answer that again in this way, quite directly, that to date the investigation which has been conducted has not revealed any such person who had knowledge of this information, but if any develops that information will be the subject of the review committee report and will be made public.

Senator PERCY. Mr. Dorsey, do you think that these payments would have been made had you been under obligation to inform stockholders of this fact?

Mr. DORSEY. I am sure not.

Senator PERCY. What would be your view of legislation not prohibiting foreign bribes, political contributions, or excessive agency fees, but requiring that these be made public to the Security and Exchange Commission and shareholders?

Mr. DORSEY. I think it would serve precisely the same purpose.

Senator PERCY. There were reports in this morning's New York Times at an annual meeting of the Exxon Corp. Mr. Jamieson admitted his firm also made political contributions in countries where this was legal, and there were indications that Canada was among the countries as well as the United Kingdom.

Has Gulf made any legal political contributions in Canada or England and, if so, can you tell how much?

Mr. DORSEY. To my knowledge, they have not.

OTHER USES FOR THE SLUSH FUND

Senator PERCY. Senator Case has a theory that sometimes invention is the mother of necessity. In your view, could the fact that your company had a method whereby money could be moved in fact, have inspired people to put the touch on Gulf. In other words, if there is say, well, we want a part of it. If the existence of the slush fund was knowledge of the slush fund that might in a sense activate people to not a very well kept secret, might it not have inspired the need for it? How else can we explain Mr. Stans' request for illegal corporate funds of which he would not normally have had any reason to believe could have been made available that again is the next to last question?

Mr. DORSEY. I do not think it is true abroad, would not be true of foreign countries. From what I have read and what I have been given to understand, it probably was true in the United States.

Senator PERCY. Finally, do not the OPIC contract terms in fact state that if a company had acted in such a way to merit expropriation, unless by U.S. Government order it cannot collect on this insurance if expropriated, so your insurance only works if you behave yourself. The U.S. Government does not condone interference in foreign elections, even though it encourages foreign investment. Again, Senator Case's question?

I think that there was a question mark at the end of it. Would you care to comment on the OPIC impact?

Mr. DORSEY. If it is a statement I am not sure I agree with it. But on the OPIC, I simply do not know but it sounds very logical to me that a good insurance man would write such a proviso.

Senator PERCY. I would like to just make a personal comment on your appearance here this morning.

I think if President Nixon had done what you have done, originally, and just owned up to everything, and laid it on the line, and that is what I urged and Barry Goldwater. When Percy and Goldwater agree so conclusively on something, I would have hoped he would have listened at that time. And that was years ago. All we said was, tell us what happened, trust the American people with the truth, and the reasons for it. And I have every conviction that if he had done that and confessed up to everything and took all of the blame himself, the American people would have been very, very understanding.

Mr. DORSEY. I believe that.

Senator PERCY. I think he would have finished his term. But it was the failure to disclose, it was hiding the evidence, and it was telling an untruth to the American people. I have no reason to believe that your testimony is not the truth, the whole truth, and nothing but the truth, in this case, and your commitment to continue to furnish this committee with information I think is a very, very helpful pledge on your part. I think it has been extraordinarily helpful to us and absolutely the right and wise decision by you and your board that this testimony, painful as it is. I think as you walk out of this room, Mr. Dorsey, you will have a tremendous load off your shoulders, and I think you have done eminently the right thing, and we want to express, certainly for Senator Case and myself, and Senator Church has for the entire subcommittee, our appreciation to you and to Gulf for your candor in this matter and for your helpfulness and guidance. I think you have given, because this is not an investigation of Gulf, it is an investigation of having these facts now in our hands, what do we do with them, and it is very, very difficult. I think your testimony is going to be extraordinarily helpful to the State Department because they are struggling with what should be the right American policy in this regard, and your candor and I hope that others who feel as you do will come forward voluntarily and let this subcommittee know what they think policy ought to be. This is in the interest of our country, our economy, and our well-being all over the country, and we solicit earnestly advice and counsel as we start now to legislate in this area as to what the proper thing is to do.

I will ask counsel to just ask one final question. Is that a question?

Mrs. LEWIS. It is not a question. Could we have information for the record, please, regarding legal political contributions that may have been made by Gulf, particularly in Canada and the United Kingdom?

Mr. DORSEY. Yes.

[The information referred to follows:]

[Supplied by Gulf Oil Corp.]

Mrs. Lewis requested information for the record regarding legal political contributions that may have been made by Gulf, particularly in Canada and the United Kingdom. We have searched our records and are unable to find any political contributions having been made in the United Kingdom. Gulf has made political contributions in Canada by its wholly-owned subsidiary, Gulf Minerals Canada Limited, in the following amounts: 1971—U.S. \$9,000; 1972—U.S. \$17,000; 1973—U.S. \$2,000; 1974—U.S. \$15,000. We are advised that these contributions are a matter of record and are lawful under the Federal and Provincial laws of Canada and that corporate contributions are a customary and accepted business and political practice in Canada.

THE GULF COMPANIES,
Pittsburgh, Pa., October 23, 1975.

Hon. FRANK CHURCH,
Chairman, Subcommittee on Multinational Corporations, U.S. Senate, Washington, D.C.

DEAR SENATOR CHURCH: This is in response to your letter dated October 15, 1975.

The first part of your letter asked Gulf to provide further information concerning legal political contributions made by Gulf in all foreign countries which we understand to be an expansion of the original request to supply such information on England and Canada. Information with respect to Gulf's contributions in England and Canada was submitted earlier with the understanding that the Review Committee was still investigating such matters and may have further findings. Gulf has been cooperating fully with the Review Committee, whose report is now due on or before December 15, 1975, and is expected to include a full disclosure of all foreign contributions. When the report is concluded and released, the information will be supplied to your promptly.

Mr. Jerry Levinson, in a telephone conversation with Mr. Charles Boyce of my office, said that submission of the Review Committee report, when available, would be acceptable compliance with your request of October 15 concerning this subject.

The second part of your October 15 letter dealt with the contribution by Gulf to International Affairs Consultants, Inc. and the recipients of funds from this organization which might have been supplied through the Gulf contribution. In this connection, I mailed a letter dated October 10 to you correcting and supplementing the record on the basis of further information obtained from Dr. John H. Davis, one of the principals of International Affairs Consultants, Inc. I suspect our letters crossed in the mail, and Mr. Jerry Levinson advised Mr. Boyce that your office has now received my letter.

Very truly yours,

MERLE E. MINKS,
General Counsel.

Senator PERCY. Do either of your esteemed members of the staff have any further questions?

Mr. LEVINSON. No, sir.

Senator PERCY. The hearings, therefore, are recessed, until the call of the Chair.

[Whereupon, at 1:10 p.m., the subcommittee was recessed, subject to the call of the Chair.]

POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

"Global Reach"

MONDAY, MAY 19, 1975

**UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.**

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 4221, Dirksen Senate Office Building, Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Symington, Clark, Case, and Percy.

Senator CHURCH. The hearing will please come to order.

From time to time in the course of this subcommittee's investigation of multinational corporations it has been our custom to hold what we call a seminar-type hearing. This morning we will conduct such a hearing featuring Mr. Richard J. Barnet, who is the founder and codirector of the Institute for Policy Studies, Washington, D.C., and Ronald E. Müller, who is a professor of economics at the American University here in Washington, D.C.

These gentlemen are the coauthors of a new book on the subject of multinational corporations called "Global Reach" and we have asked them here to briefly present their views, and then we will ask them questions.

I expect that Senator Case will be here for the questioning period. Because it is late, I think we should get the hearing under way.

So I will ask both our witnesses to come forward and take their places beside the two microphones and, in accordance with the custom of the committee, I would like first to ask you to stand and be sworn.

Do you both swear that all the testimony you are about to present to this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BARNET. I do.

Mr. MÜLLER. I do.

Senator CHURCH. Thank you very much.

TESTIMONY OF RICHARD J. BARNET, FOUNDER AND CODIRECTOR, INSTITUTE FOR POLITICAL STUDIES, WASHINGTON, D.C.

Mr. BARNET. It is a great pleasure to be here and to have this opportunity to present our views on what is, I think, clearly a most important and insufficiently underdeveloped in the Nation and international economy, the rise of multinational corporations.

Like many other Americans, I was shocked by the revelations last week about the illegal campaign contributions of Gulf Oil Corp., but I must say that I was not surprised. There have been enough revelations already by your committee and the press of a pattern of illegal conduct that I believe that this is a subject which is very deserving of serious congressional scrutiny.

VARIETY OF ILLEGAL ACTIVITIES

Our own investigations in the course of preparation of our book have confirmed the fact that there is a rather wide variety of illegal activities about which we have been informed, particularly in the Latin American—which I think reflect great discredit on this country. But I believe that the issues raised by the global corporation transcend the question of criminal behavior, and it is not really a crime, corporate crime as such that should most concern us, but the effects of ordinary business practice of multinational corporations, because these practices in our view are bringing about a revolution in the world economy which is having profound implications for all the Americans.

THE GLOBAL CORPORATION

The global corporation, and we prefer that term to multinational corporation, are really the first global planners, that is they are the first institution in history that really can attempt and does attempt to look at the whole world as a unit, as a source of labor, as a market.

What that means is that the United States more and more is becoming part of a world economy spearheaded by the multinational corporations.

The interdependency of the world economy, the interdependency of the American economy in the world system, is now increasingly being brought about through activities of global corporations. The problem of this has to do, I think, with the goals of the global corporation. The basic goal of the global corporation is global profit maximization. That is the attempt to develop a global balance sheet which is most favorable from the corporation point of view, and as my colleague will discuss in some greater detail, this often can mean and does mean profit minimization in a number of particular countries.

AMERICAN INTERESTS

The real issue now increasingly is where that strategy of global maximization of U.S.-based corporations is fundamentally in the interests of the American community and the interests of other countries.

The heart of the problem ultimately is not economic but political. It is a problem of power and the question of whether the power exercised by what is really a unique institution, a new development in the history of the world economy, is accountable power. Where an institution that is able to skate above national regulations to work within the cracks between the law of different countries is really account-

able in the sense in which we have traditionally talked about accountable power in our system.

THE ROLE OF THE GLOBAL CORPORATION

The global corporation has become, I think, by default, by default of government and by the lag of our political institutions, the principal planners for our society and increasingly for other societies.

The source of power is the control of capital, the control of national resources, energy, technology, and communications. And increasingly, these tremendous sources of power are becoming concentrated in fewer and fewer hands.

The problem then, I think, is fundamentally a question of where our political institutions, our laws, our tax law, our antitrust laws, our disclosure clause, have kept pace with the revolutionary changes in the world economy.

It is this question that my colleague now addresses himself.

TESTIMONY OF RONALD E. MÜLLER, PROFESSOR OF ECONOMICS, AMERICAN UNIVERSITY, WASHINGTON, D.C.

Mr. MÜLLER. Senator, thank you for this opportunity to enter into a seminar-type dialog with you.

I would like to reference my remarks quite briefly to the foreign relations aspect of the multinational corporation. They relate particularly to the very, very visible process of growing national economic instability that has been plaguing this country since the middle 1960's.

"NATIONAL INSTABILITY OF GLOBAL CORPORATIONS . . ."

Because the analytical framework of this work is very, very new, and because four or five major conclusions that I will be presenting are also really new, I would like to ask that a copy of my verbal testimony in the recent article published by "Challenging," the magazine of economic affairs, also be included in the record.

Senator CHURCH. Do you have reference to your article entitled "National Instability in Global Corporations: Must they Grow Together?"

Mr. MÜLLER. That is the formal one. There is a much shorter summary. I think for policymaking purposes, it is entitled "Global Citation and the Failure of Economic Policy." The reason I am asking this be included in the record is that the editorial board of this particular journal includes a wide array of distinguished economists all from different schools of thought, so I think it is a representative way of—

Senator CHURCH. Your request is to have it included in the record of this hearing?

Mr. MÜLLER. Yes, sir.

Senator CHURCH. Very well, without objection.

[The information referred to follows:]

[Reprinted from Challenge, May-June 1975]

GLOBALIZATION AND THE FAILURE OF ECONOMIC POLICY

(By Ronald E. Müller)

The global reach of giant conglomerates has rendered obsolete many of the premises on which policy is based. What is needed now is a system of democratic social planning that takes the new situation into account.

Since the mid-1960s, economic policy has become increasingly ineffective, if not actually perverse. The resulting "stagflation" is a source of constant bewilderment to economists whose notions about economic behavior come straight out of the neoclassical text. But to economists who have been studying the emergence of multinational corporations as the dominant actors in the American political economy, the current era of economic instability is not incomprehensible.

The globalization of the world's largest industrial and financial enterprises represents a structural transformation as fundamental as the post-Civil War development of the small, local firm into the large, nationwide corporation. Because global corporations operate differently from merely national ones, this transformation has invalidated the behavioral assumptions of orthodox theory. Preferably, policies based on those assumptions tend to misfire repeatedly, particularly as the multinationals increase their dominant position in both the national and international economy. Only when the gap between the development of the economy and the development of instruments of economic policy is closed will the government be able to maintain full employment, price stability and balance of payments equilibrium. What this eventually requires is explicit public sector planning on a scale that few economists have heretofore thought either necessary or desirable.

GLOBALIZATION AND CONCENTRATION

The turning point in the structural transformation of the American economy occurred almost precisely in the middle of the last decade, when there were basic shifts in the trends toward both globalization and concentration of the private sector. An ever-increasing share of profits began to be derived from foreign operations, until now some 30 percent of all corporate earnings come from overseas. (As recently as 1960, foreign-source earnings were only 7 percent of the total.) Overseas investment in plant and equipment by U.S. corporations also accelerated, from 9 percent of their total outlays in 1957 to 25 percent in 1970. Between 1961 and 1970, foreign sales as a proportion of total revenues doubled for American manufacturers. In banking, foreign deposits of the largest U.S. banks rose from 8.5 percent of their domestic deposits in 1960 to more than 65 percent today.

After a lag, the globalization process led to acceleration of the rate of increase in industrial and financial concentration in the U.S. domestic sector. Between 1955 and 1970, the *Fortune* 500 increased their share of total employment, profits and assets from slightly more than 40 percent to over 70 percent. In part, the momentum of concentration was reflected in the corporate merger movement. The acceleration in mergers was such that almost 60 percent of the \$66 billion in merged assets between 1953 and 1968 were acquired during the last four years of that period. Although the top 100 firms accounted for only 333 of the 14,000 mergers, they acquired 35 percent of all merged assets.

Concentration got underway more slowly in banking than in the industrial sector. By 1970, however, 5 of the nation's 13,000 banks accounted for over 48 percent of all bank assets. Between 1965 and 1970, the top 50 banks increased their share of assets at double the rate they had experienced over the previous ten years. Now, 9 of the nation's largest banks account for more than 26 percent of all commercial and industrial lending. They hold 90 percent of the entire indebtedness of the American petroleum industry, 66 percent of that of machinery and metal products firms, and 75 percent of that of the chemical and rubber industries.

The nearly simultaneous increase in foreign activities and concentration has not been a mere coincidence. For, after a wave of overseas expansion, the global corporation often uses the added internal economies of scale to supplement its competitiveness at home. These corporations tend to be conglomerates, which employ nonprice forms of competition and are inclined to use market share

rather than profits as the yardstick by which to assess performance. Because parent conglomerates can "cross-subsidize" subsidiaries by contributing technology, capital and marketing capabilities, the corporations almost inevitably gain an increasing share of any market they go after. Thus, overall concentration is almost bound to increase as global conglomerates become more and more powerful compared to smaller single-industry national firms.

THE VICIOUS CIRCLE OF ECONOMIC POLICY

One result of the increasing concentration is that a series of vicious circles has been set up for economic policymakers. During a slump, the largest firms tend to absorb a disproportionate share of both the tax reductions and expenditure increases that are intended to stimulate the economy. This gives them the wherewithal to enhance their market share. But the more concentrated the industry, the greater the probability that it will continue to raise prices even during a slump, thus limiting the ability of the government to encourage expansion of aggregate demand.

A similar phenomenon takes place with regard to monetary policy. During periods of credit restriction, the largest banks and industrial firms do not respond quickly to the higher financing costs, since their oligopoly positions permit them to pass on increased credit costs to their customers. Smaller banks and firms, with less secure positions, must respond immediately by lowering their lending and investment plans. Thus, the impact of aggregate policy once again promotes further concentration.

THE POST MARKET ECONOMY

As globalization and concentration proceed, an increasing share of economic transactions comes to be represented by arrangements between subsidiaries of the same parent. This leads to the development of something that can be called the "postmarket economy" in which transactions between independent buyers and sellers no longer provide correct signals about the balance of supply and demand. Thus, the key social function of the market—that of providing a mechanism for economic equilibrium—is increasingly negated.

In the foreign sector, large-scale corporate sampling surveys show that over 50 percent of total trade is now of the nonmarket, intracorporate variety. Yet government disclosure requirements cover only about half of such transactions. The result is a "crisis in information" that is enhanced by accounting techniques which allow a corporation considerable flexibility in presenting its financial statement. The use of intracorporate transfer and the advent of such substitute financing as leasing, combined with the growth mentality peculiar to the conglomerates, has led Leonard Spacek, former chairman of Arthur Andersen & Co., to call the term "generally accepted accounting principles" a fiction. "My profession appears to regard a set of financial statements as a roulette wheel," Spacek has stated.

Whatever legitimate social purposes are served by corporate balance sheets, they now hide more than they reveal. For instance, unions are increasingly frustrated in their attempts to make an accurate assessment of the profitability of a particular subsidiary with which they are negotiating, since profits can easily be shifted to another part of the conglomerate's system.

As always, there has been a considerable lag between changes in the private sector and an appropriate response by public authorities. One ironic result was the failure of economic controls during the Nixon Administration's NEP experiment. A major reason for the failure of price controls was, of course, the attempt to administer them with a staff of 300 people, fewer than 10 percent of whom were trained economists. But a contributing factor was the failure to take into account the sheer volume of intracorporate transactions. Domestically produced goods were all too frequently sold (on paper) as exports to foreign subsidiaries and then resold (also on paper) as imports into the United States. Since foreign trade was not under price control, there was no limit to the prices that could be charged. There is evidence that such fictitious sales were a major reason for price increases in such "linkage" industries as construction materials, metals, fertilizers and agriculture.

LOSS OF CONTROL

With the growth of the global conglomerates, nations have increasingly lost the ability to control their own money supplies. One reason is the growth of non-

market intrabank and intracorporate transfers across national boundaries. A second reason is the creation of the Eurocurrency market, outside of normal banking regulations, which was an understandable response to the needs of global corporate expansion. The lack of reserve requirements has made this \$100 billion pool of deposits an incalculable and unpredictable source of further increases in the world money supply. As Harvard's H. S. Houthakker notes, this "almost certainly contributes powerfully to the inflationary pressures that no nation has succeeded in keeping under control."

The loss of sovereignty over the money supply was demonstrated clearly by the experience of the United States in the 1969 credit squeeze. The Fed attempted to constrain growth in the money supply by lowering interest rates on certificates of deposit (CDs), in the hope of absorbing the funds through sales of treasury bills. Instead, the money was drawn to the higher interest rates then obtainable in the Eurocurrency market. These liquid assets were brought back to the United States through intrabank borrowings by U.S. global banks. The funds were then loaned at higher-than-prevailing rates to U.S. global firms which, because of their market power, could pass the increased costs on to consumers. Thus the U.S. money supply expanded, the exact opposite of the intended result.

The rise of the global corporation has generally been detrimental to the position of workers, particularly since the pace of competition has stepped up with the full-fledged entry of European and Japanese enterprises. Driven by international comparative cost differences first in labor and later in tax and anti-pollution costs, American companies offset declines in domestic and export market shares by a remarkable mobility in transferring their production operations to "export platform" facilities in underdeveloped countries. What Boston University's Dean of Business, Peter Gabriel, has termed the "herd instinct" of global corporations showed itself dramatically as the latecomer Japanese and European firms began to duplicate export platform foreign investments of the pioneer American companies. Unions found another aspect of their countervailing power eroded as the threat of strike was effectively offset by the threat of production transfer overseas.

THE NEED FOR PLANNING

Policymakers have yet to comprehend the forces produced by the globalization and concentration of the corporate sector. The worldwide complementary planning decisions of global banks and industrial companies have brought with them a convergence of the business cycles of advanced nations. The upshot is that the U.S. can no longer, through foreign trade and finance, rely on Europe's upswing to help bring it out of a slump—and vice versa. Today, one nation's deflationary or inflationary surge helps bring on and accelerate those of other countries.

The rise of the global bank has linked the financial systems and money supplies of nations. Despite this interdependence, however, no global central bank of last resort exists which could stem an international liquidity crisis, such as is likely to be triggered by the Eurocurrency market. The structural lag accompanying the rise of the first postmarket global corporations, those in the petroleum sector, was overcome by a structural phenomenon known as OPEC. But the transformation is not yet complete, since a financial structure capable of recycling the liquid assets that were dramatically redistributed as a result of OPEC's actions is still to be built.

To orthodox economists (and, unfortunately, the managers and government policymakers they advise), the events of the day have come as a surprise. These economists have assumed that primary institutions are static, and they have been preoccupied with *functional* studies of changes in aggregate data. But after a period of structural transformation, their model is obsolete, and so are their policy prescriptions. At this point, the model needs updating to bring it closer to the structural reality which it seeks to predict. So it was with Keynes, who, in the midst of the crisis in economics of the 1930s, built upon the work of the Swedish school of Wicksell and Myrdal to derive a new model for policymaking purposes.

The traditionally accepted public institutions for managing the economy have not kept pace with the revolution in the private sector. The most notable symptom of this structural lag is the information crisis. But the political implications of the greatly increased interdependence among nations are not yet fully understood. For example, there is a clear need for people in the United States to ask fundamental questions about the adequacy of current public regulatory institutions. In particular, they should be concerned about the antitrust laws and en-

forcement mechanisms, corporate disclosure laws, accounting conventions, banking and labor relations legislation and the capacity of the government itself to maintain its corporate tax base.

On the other hand, such seemingly national issues have unpredictable economic impacts in a time of global interdependence. If the regulatory institutions of only one country, say, the United States, are altered in an attempt to provide more reliable stabilization policies, that nation's national income is likely to suffer: competitive oligopoly advantages will accrue to the global corporations of other nations. The age-old dilemma of the oligopolist—"if I do not take advantage of an opportunity, my competitors will"—is now true for the national policymaker as well. This is why some form of international planning is now absolutely necessary.

Whether or not global harmonization is politically feasible, and, if it is, for whom it will be economically desirable, are the primary issues facing national and international "econopolitics" in the years ahead. People like Walter Adams, John Kenneth Galbraith, John Blair, Barry Commoner and Gunnar Myrdal would add considerations such as the social, as opposed to the private, efficiency of the current size of large global corporations; the lack of a community voice in the conglomerate's plans for a local subsidiary; and the desirability, let alone feasibility, of maintaining the present *composition* of national output. Those who would limit planning to the international harmonization of national economic policies assume that the present conglomerate system of production is socially desirable. Others doubt that assumption and therefore advocate a different form of planning. But, in my opinion, even those who rightly recognize the negation of the market's social function and the heightened technological interdependence of society have yet to grasp fully the depths of global interdependence. Again, the differences between the two groups means a very different kind of planning.

Those advocating only a harmonization of national economic policies would probably replace national regulatory institutions with transnational ones, particularly in the domain of finance, taxes, corporate disclosure and antitrust. But such a step suggests an even further lessening of local and national social control, something I cannot accept. Instead, I would urge a social development plan for the United States so that we can increase the degree of local, community and national social control over our economic system.

A major objective of a social development plan is to take advantage of our current knowledge and give the American people the opportunity to decide what type of nation they wish to have in the future. It would help us avoid the unpleasant consequences of unplanned development in an interdependent world. One warning: if we are to uphold personal freedom, we must use the political process to select plan objectives, targets and strategies. Positions on planning issues should therefore form an official part of each political party's electoral platform. Major components of the social development plan should include a set of objectives covering the desired degree of income equality, a definition of full employment, the composition of national output, and the degree of foreign dependency these require.

Global interdependence is already so great that we would have to begin with transitional planning phases of, say, four years each, with initial plan objectives targeted for the twelfth year. During the transition phases, major legislative work needs to be done. Foremost could be the legal redefinition of large corporations as social rather than private institutions. Also, the corporate information crisis could be ended through such measures as "deconsolidation of consolidated balance sheets" and a recomposition of boards of directors to include elected representatives from the various constituencies affected by large corporations. Another major legislative issue involves nationalization. Debate over that broad question would include the definition of nationalization, determination of its costs and benefits, possible alternatives, and a decision as to which corporations (not necessarily industries), if any, should be nationalized. As a final example, there is the question of whether or not the spatial definition of "local community" necessitates the redrawing of state boundaries into economic, political and administratively functional regions.

These suggestions are admittedly incomplete and crudely formulated, and undoubtedly will shock many who read them. Some will be dismayed by the idea of a social development plan, for they will view it as a threat to personal freedom, initiative and enterprise. They are mistaken: the current lack of social planning negates the pursuit of individual freedoms for all but the most powerful. Others will say such a plan is not feasible. They too, I feel, are mistaken, but their reservations should be taken quite seriously. To restore stability in a

world of instability is an enormous task. For much too long our basic human resource, the acquisition of new knowledge, has been focused on the material domain, on a public-private spectrum which extends from the Manhattan Project to the managerial technology of the global corporation. Perhaps through a number of Manhattan-type projects we can now turn to the task of creating the just and stable society.

A SUMMARY

Senator CASE. You are going to summarize it?

Mr. MÜLLER. Yes; I am going to summarize the major conclusions. Well, starting out, the first basic conclusion that we have seen is that the impacts of the multinational corporation have resulted in the fact that the U.S. Government is losing effective control over the economic situation of this country, over the economy in terms of its macro aspects.

This comes out of, number 2, a still basic lag or basic lack of recognizing the degree of global interdependence of our economy, and more importantly the uniqueness of the multinational corporation as compared to the national single industry corporation.

This is all the more so important because today we can talk about the fact that some 700 U.S. financial, industrial, and agribusiness multinationals control well over 70 percent of the total private economic activity of this country, as compared to some 450,000 other firms in the same sectors.

The basic casualty, the basic factor behind this loss of control over the economy in terms of the ineffectiveness of our economic stabilization policy is basically that those policies still assume that we live in a market economy.

Senator CASE. Would you say that again?

THE COMPETITIVE MARKET

Mr. MÜLLER. Those policies still assume that we have in existence in our economy the institution of the competitive market, which is basically an institution whose prime social function is to transmit Government policy to the private sector and get specific kinds of responses.

For example, in order to control inflation, or increase unemployment, and I think during the question session I can amplify this further—

Senator CASE. You do not accept that assumption?

Mr. MÜLLER. No, absolutely not.

Now, we can give a number of examples on this. I prefer waiting until the question session so I can get through here.

VICIOUS CIRCLES

What was happening since the mid 1960's of this fundamental misunderstanding of the inadequacies of these stabilization tools, monetary and fiscal policy is a syndrome of what we call vicious circles. Vicious circles in terms of policymaking once we thought were only to be seen in so-called underdeveloped countries. What we have is a process when we apply monetary and fiscal policy of jeopardizing the position of small national industry in agriculture, banking, the industrial sector itself, which in fact increases concentration on behalf

of the multinational corporations basically do not work through a competitive market but in fact can transcend the market, they can also circumvent policy, and we have many examples to illustrate this later on.

ECONOMIC STABILITY

The kind of economic stability I am talking about is not only increasing unemployment combined with increasing rates of inflation, but also the erosion of the corporate tax base on the Federal Government's taxation policies.

I am also talking about a loss in the national productivity, in the rate of growth of national productivity, and, of course, instability in the balance of payments.

A third and very, very related conclusion already mentioned by my colleague is that one of the reasons, main reasons that our economic stabilization policy, control of inflation, employment, taxation itself, is becoming increasingly ineffective, is because of the information crisis in Government itself.

Although the information surrounding the so-called energy crisis, the ITT-Chile affair, and the domestic as well as foreign cases of corruption are dramatic examples of our lack of knowledge about these corporations, they pale in the face of the information necessary that we must have in order to develop new and adequate stabilization tools for the need.

CURRENT CORPORATE DISCLOSURE LAWS

In fact, our current corporation disclosure law, given the nonmarket nature of these multinationals, given their worldwide accounting mobility, which means it is becoming more and more difficult to trace the true origin of profits, true origin of costs, results basically in the decline in the countervailing power of national business and labor to maintain a stable economic position in our economy, and more fundamentally has meant the decline in the Government's own policymaking effort to stabilize the economy.

Another basic conclusion concerns this particular subcommittee itself. In my mind new and further emphasis now has to be given to a whole set of proposals which are originating in the international community.

TRANSFER OF TECHNOLOGY PROPOSALS

For example, the transfer of technology proposals, code of conduct on the multinational corporations emanating from current activities, or attempts by the Organization of American States and also the recent meetings of the OECD. The key point I wish to make here is that because of the degree of global interdependence of our own economy, any of these national proposals on control in fact will have various types of different economic impacts right back here at home, and, therefore, types of domestic political ramifications.

A very good way to get to this is the increasing number of writers who are arguing that because not only the United States but many other advanced nations are losing control of their economy, there must be international harmonization of such aspect not of only of corporate disclosure but of monetary and fiscal policy itself, and anti-trust procedures.

This will involve, should this be effective, such type of international harmonization a new level of government planning at the international spear between basically home governments and multinationals.

DEMAND FOR NEW EFFORTS

This comes at a time when, as you know, before the Congress, and in many academic journals, we see more and more of a demand for new efforts of the Government at the national planning level.

Here again, to refer back to Mr. Barnett's statement, we know that planning of various types is usually quite economically feasible. The key question, however, of are the politics of the planning and the key question for me and for many other people, I think, in the United States is planning by whom and for whom both at the international level.

How in fact do we develop a democratic social planning process that maintains the American tradition of economics and balances while at the same time allowing us to restore economic and ecological stability.

The planning task ahead of us that I see can go, however, will be even more complex than we currently envision, and this is because as you gentlemen well know, that increasingly we are going into a new era of international economic, and, therefore, political power relations. That increasingly we find differs in needs, differs in goals between nations that were once formally considered close allies. Increasingly we are dealing with a four polar world made up of the resources rich advanced nations, rich in also technology and finance.

But another new poll on Japan and Europe, which is resource poor but financially and technology rich, and then we go to the so-called sudden sphere of poor nations. What we find there obviously will be the OPEC examples and others are two sets of countries again. The resource rich, who are increasingly becoming financially rich, and the resources poor of all kinds. This new era will basically bring us into a new sphere of international political relations.

RESOURCES OF THE SOVIET UNION

Senator CASE. In the analysis, where do you put the Soviet bloc?

Mr. MÜLLER. The Soviet Union itself is in fact resource rich, and particularly the kind of technology is rich financially in terms of whatever dealings it would have in non-Soviet area, particularly in the third world, it is potentially rich.

Senator CASE. Is it a factor in your scheme?

Mr. MÜLLER. Yes. I will stop there.

Senator CHURCH. Well, that is a good springboard, I think, for questions.

DISAPPEARANCE OF MARKET ECONOMY

The first statement that I would like to deal with is your assertion that the market economy is disappearing and, therefore, the economy is off. The past which dealt with the existence of a free market, which would determine price, maintain efficiency, and regulate or establish a kind of self-regulation, have greatly diminished in importance today. Does it not by virtue of the enormous concentration of control and

power over the whole economy in the hands of relatively few great global corporations? Is this the thrust of your thinking?

Mr. MÜLLER. Right; and to give an example that one has to understand global corporations, which includes global corporations, which includes global banks. No. 1, they are not only global in scope, operating in many, many different countries, but No. 2, almost every one of them is a conglomerate, meaning it operates in different industries and different product lines. The vast majority of its transactions until the end consumer point, both globally, that is, international with our foreign sector and other nations of the world, as domestically between industry no longer go through a market of independent buyers and sellers because the so-called buyers and sellers are subsidizers of the same parent conglomerate. This means that the prices are fixed to the transactions and in services, in goods, in resources, and many, many ways. And there are many, many examples we can show and document do not bear anything to a so-called fair market or competitive price.

PREREQUISITES FOR GLOBAL PROFITS

In fact, one of the prerequisites for global profit maximization is, of course, global tax minimization, and we find that the difference in tax rates between countries, the ability to show differences in wage rates between industries, domestically, leads to transfers of resources so as to minimize both tax costs and wage costs. This is an example where we in fact have no market, a negation of the market, if you will.

The other aspect of the failure of the market process in this country is concentration itself. The oligopoly power of the so-called concentrated power of the consumer.

THE DEVELOPMENT OF CONGLOMERATES

Mr. BARNET. If I might add, I think there is a very clear relationship between these two developments which have begun to change the whole notion of the traditional market. One, of course, is a trend that has been discussed and marked for more than 40 years, and that is the increase in concentration, the swallowing up of small business by large business, the developing of conglomerates. But the second factor is the internationalization of the economy, that is, the fact that the largest corporate units are the ones that can take advantage of the opportunities to go abroad to engage in the kind of tax minimization strategies that Professor Müller was talking about.

That in effect you have these two factors feeding each other. The concentration and the internalization of the economy are coming together in a way to make the market less and less effective, and I believe it is for this reason that we have the very disturbing phenomena that our largest corporations are really paying in effect a tax rate lower than the rest of American business, which it seems is exactly the opposite of the way the system is supposed to work.

Mr. MÜLLER. We have some examples if you would like to continue on this.

WHO CONTROLS THE ECONOMY?

Senator CHURCH. I would like to ask if you would amplify the statistics you gave the committee a few minutes ago when you said that today 700 multinational corporations exercise effective control over 70 percent of the American economy, and the remaining 30 percent is divided among 450,000 other businesses.

These are very startling figures and demonstrate the extent to which oligopoly has come to be the dominant feature of our present system.

Senator CASE. How does that compare with what Burling and Means found about 40 years ago?

Senator CHURCH. That is just the question I was going to ask.

Senator CASE. Is there really a change? That is what I am talking about.

Mr. MÜLLER. In 1950 roughly the same 700 corporations, 700 largest financial industry and agribusiness sphere controlled roughly 40 percent of the total assets, employment, profits, and sales. The 700 largest today in the three sectors control somewhere over 70 percent.

The point is well made, and this is what Richard was talking about before, about this acceleration and concentration being brought about by the globalization of the firm, both because of its bigness and because of its nonmarket characteristic as compared to those other 400,000 firms which must work through competitive markets, which are only in single industry and by definition are not multinational.

Senator CHURCH. So it has gone from 40 percent in 1950 to something over 70 percent in 1975?

Mr. BARNET. There are some other statistics that may be of interest. That between 1953 and 1968, there were over 14,000 mergers of manufacturing corporations. The top 100 corporations accounted for only 333 of these mergers; 333 took place at the top. But in the process they acquired about 35 percent of all the assets that were merged in those acquisitions. That we see, for example, a rate of acceleration in this process. For example, in 1965, 1,500 firms disappeared in 1 year alone through merger, which was the highest number up to that time.

We have evidence, I think, that the process of merger and internationalization came together and reinforced each other, particularly in this period of rapid growth, which really from the late 1950's to 1968. That was the period in which there was both great acceleration in concentration in the domestic economy fed by the same process of going abroad internationalization.

THE GOVERNMENT'S ROLE

Senator CHURCH. Assuming that there is still some interest in retaining a free market and some belief that that is the most efficient measure of the economy, and that public policy ought to be directed toward the preservation of a free market, what recommendations would you have to make for the government to respond?

Mr. MÜLLER. I would like to start out by saying that this question in many ways poses a dilemma. One begins to talk about international harmonization and effective planning. This same process of globalization leading to increasing concentration, leading to increasing globalization over time is not only taking place in this economy. The

Europeans and Japanese can trace this statistically and are going through the same process with roughly a lag of somewhere from 2 to 4 years depending upon the particular sector that we are looking at. You may remember the famous Jean Jacques Servan-Schreiber's "American Challenge."

THE EUROPEAN RESPONSE

The response by the Europeans was to globalize and after their initialization efforts of the mid-1960's in fact in finding a concentrated merger movement occurring in the late 1960's and early 1970's. This poses a dilemma for the following reasons. If you wish to attempt to restore free market forces you in fact will have to devise new laws, particularly in the area of antitrust, and particularly in the area of corporation disclosure, and particularly in the area of differential tax treatment and monetary treatment of small versus large corporations.

One of the key aspects here is that if you think about what our policy is today, assuming that all corporations are the same, if you give a 10 percent accelerated tax credit to a corporation, a small one responds the same as a big one. If you increase interest rates to stem inflation, the same impacts are the same on small or big firms. They are not for the big firms. The impact on the negative side are always less. The impact on the positive side are more. If in fact on a national basis in the area of corporate disclosure, the area of antitrust, for example, and implement effective new regulations, and the other home nations of global corporations, Western Europe and Japan do not. What we are in fact doing is giving a competitive advantage to those foreign global corporations. This at a time, Senator——

Senator CASE. In what market?

STATISTICS OF THE WORLD MARKET

Mr. MÜLLER. In the world market. For example, let me show you that through the following statistics.

We know today somewhere over 30 percent of the total corporate profits, that is, of the entire corporate sector of the United States is now derived from foreign transactions. We also know that profits form a fundamental part of investment, that is, future employment and future growth. If you jeopardize that 30 percent of your total corporate profits because of new effective measures, that, therefore, make the Japanese, Germans, and so forth, more competitive in world markets, you in fact jeopardize our own national income to the aggregate economy.

Senator CASE. Because they are willing to do things that our people are not willing to do to ourselves?

CORPORATE DISCLOSURE

Mr. MÜLLER. That is right. If you have corporate disclosures that release a significant type of increase information on U.S. multinationals, for the public record, with respect that does not take place for the Japanese and the Germans. You now see a difference in one set of corporations knowing more about another set of corporations given

the nature of large conglomerate competition. That means a competitive advantage for those who do not have the——

Senator SYMINGTON. I have been listening to these hearings with interest over a period of weeks and respectfully commend the Chairman and the committee for the work that is being done, but I am getting increasingly apprehensive about where this ultimately leads us.

I can remember back in 1946, Mayor La Guardia was working for Governor Lehman who ran UNRA and asked me to look into the situation in China, and I did. I found out that the commonly accepted graft figure was 20 percent, and the irritation was that 80 percent was going to the people who were responsible to get whatever it was we were sending over there. Listening to these hearings, reading books like "Global Reach," articles and so forth, I can see how it affects American business and American employment and American profits, and I am wondering if there are no laws against it?

For example, we had a man up here the other day who confessed, I suppose that is a fair word, that he had given a bribe to people in foreign countries in order to get business; but the generally accepted way of getting business to my certain knowledge, having been in business in many of these countries, is through doing just that. Therefore, why should a man be criticized if he is not breaking the law when he does give money to people which will increase employment, or if not employment, the profits of the corporation which in the mean is owned by American citizens? I do not mean to be over-sophisticated about it. Does it not mean that the fault really lies with the Congress in not passing laws that express any kind of psychological or social feeling about the impropriety of adding money to your cost of product in order to get the order?

Mr. BARNET. Yes, I think you are absolutely right. The issue here, I think both in the question you mentioned and in many of these other practices, where we see a divergence between what is good for the corporation and good either for the host country, United States or the developing country in which they may be operating, is that we cannot expect corporations, executives of corporations, managers of corporations, that is in tough competition to be in effect their own legislators to forego profits that may be allowed by law and custom, but I think if we see how absolutely destructive these practices are in the long run both to the American national interest and to the development point in these countries, then I think we have to change the laws and customs.

CHANGING THE LAW

Senator SYMINGTON. How would you change the law in the case in point?

Mr. BARNET. Well, I think it ought to be, in the first place, I think that the right to deduct bribes, that ought not to be allowed as a matter of public policy, that I think that very important point is to greatly develop our disclosure requirements so that it is no longer possible, or let us put it perhaps more modestly, it would become much more difficult for a corporation to conceal the fact that they are engaging in these practices.

Senator SYMINGTON. Why should they not conceal it if their competition is doing so? Why should they be forced to conceal it?

I am just being the devil's advocate.

Mr. BARNET. I think it is a very important point and really refers back to the point that Ron Müller just made.

Senator SYMINGTON. The man who was reputed to be the greatest orator that this body ever had once wrote a letter stating, as I remember it, "I have not received my check this month. Unless I get it, I am not going to support your bill any more."

I can remember as a young man in business a company gave stock to purchasing agents, below the issued declared market price, and a class A stock, so you could promptly turn it in and make five points on it. And if you had 10,000 shares you could make \$50,000. It was just that it was local. That was all connected over here.

But what I can not understand, perhaps it was our fault to give these people so much technological knowledge in the beginning. That is a moot question because it has all been done. And it is true that they, even in the so-called free world countries, many of which in my opinion are not nearly as free as we pretend they are—if we think they are our friends in those countries, they do control the labor market much more than we control it over here.

On the other hand, it worries me, that growing criticism of bribing, I believe would be the word, a citizen of another country, in order to get business which otherwise would go to a third country. This obviously has been going on. I do not want to mention any particular industry. But I know one industry in which it has become standard practice. I do not see how you could stop it unless you pass a law preventing it, and if you pass a law, you guarantee that the number of people unemployed in this country will increase. This worries me from the standpoint of the ultimate concept of a government working for the public good which means that everybody who wants to work should have a job. I notice that we take all of these Vietnamese orphans, and I am the last to protect it. I heard on the radio there are 24,000 children in the city of Washington, D.C. alone who would like to be adopted also. And I cannot quite figure out how in any way you can blame private business for something that goes on. That is the only way they can compete. Then if you pass a law preventing that, do you not automatically set it up for the country that does not have that kind of law.

That is a little involved, but I am confident because of your expertise you know what I am driving at. I have had a little experience in this field myself.

Mr. BARNET. I know that and I think you have really put your finger upon what Ron is talking about is so necessary.

GUIDELINES NEEDED

It seems to me if we are to change these practices there has to be clear guidelines which have the force of law, so that corporate managers will know what they have to do. But by the same token I think the United States has got to take initiative in trying to get the other major industrial countries which are home bases of multinational companies to really pass the same kind of laws and restrictions on their own companies for exactly the reason that you mentioned. That

we cannot legislate a higher standard that allows other countries to get an advantage.

Our own view is that there is growing perception on the part of other major industrial countries, the Japanese, and some of the West European countries, that the same kinds of effects, adverse effects on the local economy, the same kind of instability that we have been discussing here this morning, is happening to the United States, and are being felt and will be felt in those countries as well; thus there is at least the basis of a possible common interest in moving toward this kind of international regulation.

RESTORING COMPETITIVE FORCES

Mr. MÜLLER. Could I make one quick point to reference your question, to Senator Church's preceding question on restoring competitive forces?

The essence of what you have to do, if you really want to do that, is to bring into all of our thinking the new analytical framework that makes up over 70 percent of the nonsocial economic transactions that are largely nonmarket transactions. The essence of our current corporate disclosure is to accept the consolidated balance sheet approach, which means in essence we do not have the ability to trace where the origins of costs, for what purposes those costs were expended. We do not have the capacity to trace the origin of profits, either in which industry or in which country. The consolidated balance sheet in a world of global corporations must be consolidated and that will only happen, I think if we recognize that a global interdependent world means that the approach necessity is harmonization toward major advanced countries.

THE ROLE OF INTERNATIONAL ORGANIZATIONS

Senator SYMINGTON. I think that in the last 10 years most of the significant achievements that I know of have been in the failure of these international organizations to really accomplish anything. Take the SALT talks, for example, or take the treaties through which we hope to control nuclear arms, and so forth, or take many forms of GATT, and also take the Common Market situation, which has gotten to a point now where one of the major European countries is going to stand or fall on it. I see no success in any international group.

In fact, I was a delegate this year to the U.N. There are 138 countries and we put up 31 percent of the money. Yet on one vote we got 4 votes out of 138, so I do not see any organization. At the same time this is going on, a lot of these so-called nontechnical countries are rapidly getting technical knowledge.

I can remember when not long ago I asked, when I would go to such and such a country in Europe, "what should I ask them about our relationship along the lines of technology?" The answers really surprised me, because they felt sincerely it was the question I should have asked. One country was annoyed because so many American corporations were leaving their business in that country and putting it into a country farther south. Also, in a NATO country, a firm was transferring its plants in order to get a better labor price. I do not see how you are going to stop this through any multinational

corporation. Yet if you do not stop it, it is going to continue, and if it does not continue with laws prohibiting what the other countries are going to do, then we are going to add further unemployment to the people of this country.

Mr. MÜLLER. I think that I am equally pessimistic about the past record of getting international cooperation. However, remember that the examples that you have just cited and other ones that we can talk about were all taking place during an era of relative economic stability in the advanced Western nations. It has only been since 1968 that we have heard such terms as stagflation. It has only been since 1970 that we hear such quotes as that from the Finance Minister of West Germany, that there are crucial times of the year when we lose effective control of our money supply and, therefore, our ability to control inflation. Economic instability is germane to every one, be they in business or labor. We are only really experiencing it for the first time in the post-World War II era.

This, I think, is the optimistic side of why there is perhaps now real necessity for international cooperation at some particular levels in terms of treatment of global corporations.

Senator CHURCH. Let me just interrupt here because there seems to be a nonsequitur as we sit here. If I am wrong please point it out to me.

First of all, I agree with Senator Symington, there is nothing in past performance to suggest that there is much hope that an international code of conduct can be worked out that will be subscribed to by a sufficient number of national governments, let alone a common universal policy towards such matters as corporate disclosure or anti-trust. It is not going to happen in my judgment.

But what troubles me in your analyses is this: If the thesis in your book, "Global Reach" is correct, and if these large multinational corporations because of the way they operate on a global scale, because of their capacity to minimize taxes and to avoid effective national regulations, because of practices that you have pointed up so well in your analysis—if the net effect of these companies is to beggar the economy of their home country, the United States, and produce such phenomena as stagflation here, a rising rate of unemployment together with a rising rate of inflation—if you are correct in this, then why does it not follow that there will be adoption of adequate national policy to restore the forces of a free market at home, to break down the conglomerates with new up-to-date antitrust laws, to tax with some relationship to assist, so that smaller companies will have a better opportunity to compete against the giants? All of this would not serve our national interest in any case without the need to go out and try to get impossible agreements on a worldwide scale.

THE ADVANTAGE TO OTHER ECONOMIES

You say that might create a competitive advantage for European MNC's or Japanese MNC's, but to what effect? What does this advantage bring these economies? Do not their multinational corporations have the same adverse effect upon their economies and would not they, in their own self interest, be forced to adopt similar provisions without the need of necessity to talk about international accords that are not

going to be forthcoming? Would they not in their own self interest have to take measures of this kind if your analysis, in fact, is valid? Why the need for discussing global accords?

Senator CASE. Which you cannot get anyway.

Mr. MÜLLER. There is no need to discuss global accords if you in fact say that we are willing to go through a transition period in this country.

Let me give you an example from the past.

If in fact you see the need for adjustment assistance coming out of change in foreign trade, to help affected industries, firms, and labor and therefore you come through with some types of Government assistance programs to make that adjustment during the period of transition where one industry dies as long as new industries are born, then in fact what you are saying is correct.

What I am arguing is that in the shortrun without a planned transition approach that we will have negative effects on the economy in terms of reduced profit rates, therefore, reduced investment rates, therefore reduced employment, increased rates, unless we take a transition and planned approach to that.

Mr. BARNET. I would like to add a clarification. I agree completely with your statement of the analysis, that is, it is in the interest of and will be increasingly perceived to be in the interest of the other industrial countries. I think there may be confusion here as to emphasis.

THE NEED FOR LEGISLATION

Our view is that the primary emphasis has got to be on national legislation, that we are talking about change in our tax laws, antitrust laws, and particularly some measures to restore the countervailing power of both local communities and the labor movement, which I think is a terribly important area for legislative reform in this area.

What we are saying is that, and I also agree with that a great deal of discussion, at least the implication of what you are saying—that a great deal of the discussion about international regulation is both hopeless and it is in some cases, I think, not entirely sincere that there is a tradition of dealing with different national problems by the development of, the appearance of, international regulations giving to international boards, powers and authority which they could not possibly exercise. We are not for that.

What we are saying is that as part of a process of national legislation, that legislative reform, there ought to be a serious effort, a continuing effort made by the State Department, by the Government, in talking these issues through with the other industrial countries to try where possible to come to agreement, but we should not be dependent upon those agreements, we should not wait for those agreements to go ahead and do what is in our national interest to do,

OBJECTIVES

Senator CASE. What is the objective, what is your ultimate goal? You talk about doing things so we can revive the free market and its impact, and yet you also talk about Government planning the number of cars that are going to be built.

Now, are you planning to revive the free market in order eventually to come to a completely controlled economy, which the free market will not exercise except as a mechanism under the control of the Government?

What is your objective?

Mr. BARNET. I think we have to look very specifically at what in fact our economy is and to treat different parts of that economy in different ways where in fact they are in different situations.

What we are saying is that there is now a vast part of our economy which is behaving entirely different from the traditional way in which a free market economy is supposed to operate, and that to call that a free market economy, I think is a disservice to language and ultimately to policy.

Senator CASE. We can all understand that and follow you.

Where do you go from there?

Mr. BARNET. Well, I think there is going to be, that we have to look at the economy sector, that where there is a free market economy operating, as there is in small business, it ought to be policy of Government to support that free market economy and to do that. One way to do that is to remove the threat of overwhelming competition by the conglomerates. Another I think is——

Senator CASE. Even though the product to the consumer costs more?

Mr. BARNET. Well——

BIG VS. SMALL BUSINESS

Senator CASE. Is there an inherent good in small business?

Mr. MÜLLER. By the best reckoning of the most orthodox economies, if we look at the cost of production being produced by these large global corporations, these conglomerates, General Motors to General Electric to Dow, all those familiar household names, they have long since surpassed the most efficient assistance for most cost minimization type of production.

Senator CASE. You would then eliminate those governmental favors and assistance which keep alive uneconomically large combinations, I take it. We all agree with that.

Beyond that where do you go?

THE ENERGY SECTOR

Mr. MÜLLER. Well, let me give you a specific example. If you take the energy sector, and you look at energy, there are aspects of the energy sector where one can in fact induce competition. It is a limited aspect but one can, and in fact the differential approach taken to the depletion allowance, taking it away from the larger international powers and retaining it for some period of time for small national domestic, was in fact a measure that promotes competition at least on onshore U.S. oil extraction. It gives a differential advantage to the small who most needs it, or the big who can best afford not to have that advantage.

If you look at offshore oil extraction, in territorial waters off the United States, there I think we have something to learn from the experience of underdeveloped countries ironically in their treatment of these large global corporations, as Senator Symington mentioned

before. They are getting more and more technically sophisticated, particularly in the area of control of global corporations. I suggest we have much to learn from the new efforts being taken by such countries as Brazil and such countries as those of OPEC, Mexico, et cetera.

Now, in terms of the energy sector of the United States, one of the things that we can do in restoring effective control to a national energy policy by the Government is not to necessarily nationalize large oil corporations but in fact to use them in the one place where they are most efficient, that is, the use of management service contracts between the Government and the corporations for extraction of oil, but where the extracted oil basically controlled through competitive bidding processes.

THE RELATIONSHIP BETWEEN THE OIL COMPANIES AND OPEC

For instance, the relationship between the OPEC countries and oil companies are quite harmonious today, relatively speaking, they have made transitions from ownership and control of not only extraction but financing and market to know where the finance of a larger degree and marketing is becoming more and more of the controlled and that cuts the monopoly power if you wish of these oil companies.

Here is an example of differential policy in one sector, strategic social sector, if you like.

Mr. BARNET. If I could respond to your question.

DISTINCTIONS BETWEEN BIG AND SMALL BUSINESS

I think that the most important thing to recognize in trying to make some real distinctions between the parts of the economy that are working as a free market economy and those that are not, is that the largest corporations, the global corporations, now are in fact social institutions on which whole countries now depend, and yet our laws still treat them as if they were the same as the corner grocer or corner drug store.

One thing we would propose is that I think it would change a good deal in the balance of power between corporations and the labor movement on the one hand and local communities on the other, is to restrict the rate of unlimited movement of corporations in and out of communities; that where a corporation has invested in a community and has a dominant position in that community with respect to the labor force, with respect to the tax base, has in fact grown with the resources of that community's air, water, education, it ought not to be a completely private decision whether it picks up and leaves. At least it ought to be able to do that and simply throw the costs of that enormous costs, financial costs, and human costs back into the community.

LICENSING PROCEDURES

Other countries in Europe have recognized this and have various kinds of licensing procedures in which that decision as to where, when the plant moves and under what terms it leaves, becomes a community decision specifically. A corporation ought to bear some part of the burden in retraining, relocation, and reinvestment that will be necessary for that community to survive. As it is today when the issue comes between survival of the corporation, and the survival of the corpora-

tion says it cannot continue doing business in that community and continue to make a profit, and the community says we cannot really survive economically if you leave, the decision unfortunately is always made in favor of the corporation.

ENTERPRISE TO BEAR ITS SHARE

Senator CASE. Mr. Chairman, we all agree with what Dr. Barnet says about the need for enterprise to bear its share of the social costs of its decisions. We can understand that on a domestic basis. We work toward that purpose though not exclusively. Why do we not take what course we can take in governing our multinational corporations, let the rest of the world make its own decision. Senator Church said in fact they would have to come along eventually. This is the only way we can control multinationals anyway because agreements on these matters are really just too big to comprehend. You wind up with the worst of both worlds if you try to accommodate the habits of business of many countries in a treaty. You would end up with the lowest common denominator. You can't assume that what works in one country's operations applies somewhere else. Had not we better do this by example rather than by trying to come down to some kind of squishy common denominator?

Senator SYMINGTON. Before you leave, I would like to give an illustration which involves a great gentlemen who was later Governor of your State and at the bottom of the depression he had a plant in another State and—

Senator CASE. He was a Senator?

Senator SYMINGTON. Governor. And later Secretary of the Navy.

Anyway, he said that he went out to a town in another State and said, "I am very sorry that I just cannot keep this plant open and I must close it," following the thought about the plant. They said, "Well, before you close it will you give us a chance to tell you what we will work for to keep it open"? He told me this story himself, and he said, "Well, there is no chance, but I will be glad to spend the night here and talk to you in the morning." They came back and said, "If you will keep the plant open, we will all agree to work for 8 cents an hour until things get better." And he said, "Well, on that basis"—his name was Edison—he was a well-known American family—"I will keep the plant open. I don't care if it breaks my plant, if you will work for 8 cents an hour."

The other side of that which perhaps I got out of your superb book is the fellow who takes a part of an electrical appliance, which I happened to be involved in, and he says it is costing him \$3.50 an hour. What would you charge us if you made it in your country? And they said let's take a look. I think this story was in your book. They said give it to us and we will tell you. And then they came back and said we will work for 35 cents an hour on this part where labor is a very important part, as it is in all of the small electrical appliances. And they said that is wonderful. But suppose there was a strike? This company is one of the companies we favored. There wouldn't be any strikes.

Remember that story?

SUPPLY AND DEMAND

How are you going to coordinate those two thoughts? Are you going to have to go back to where you get the law of supply and demand applied in this way as it was in the case I mentioned, or how are you going to regulate two tremendous differences in those two stories?

Mr. MÜLLER. Well, Senator, there are a number of measures that can be taken as our economy grows in the future. More and more we begin to build ourselves out of this dilemma between global interdependence and need to take national policy actions because we feel what is being done is basically wrong for whatever reason.

One example which this committee knows well is that our current tax laws give a systematic bias to foreign investment in favor of domestic investment, so that taking away that bias and restoring the bias to domestic investment and not foreign investment, we therefore, as we grow in the future, begin to reduce this global interdependence.

One of the key aspects here that we have overlooked in our tax laws is that by giving a bias to foreign investment we are basically taking actions against growth in the national productivity of this country. When you create plant and equipment overseas, and please remember that today something like 29 percent of the total corporation investment in this country is no longer staying in this country, it is now leaving—you are adding to the capital stock of foreign nations, you are adding to the labor productivity of foreign labor sources, not to the United States, and the return on a foreign investment goes only to the profit sector of this country. There is no return for the labor sector because that goes to foreign labor.

Senator SYMINGTON. I understand that.

TAX TREATMENT

Mr. MÜLLER. Tax treatment is, I think, one area where we can take initiative irrespective of the question of global interdependence because we are affecting things as we go.

Senator SYMINGTON. Thank you.

Mr. MÜLLER. I also think, going back to Senator Church's point in the area of antitrust area of corporate disclosure, that you are absolutely right, we should take the initiative here and it is a question of emphasis, but I would hope that when we take such measures we know in fact the kind of conditions we can in fact take advantage of, the technical engineering economic tools that we have, to tell us when we take strong antitrust measures, strong corporate disclosures, that there will be certain kinds of negative impacts on certain groups in the society; namely, particularly employment. Thus we can in fact devise concomitantly transition programs to take us through a period where we can in fact use the tool of adjustment assistance.

Mr. BARNET. I think the most disturbing trend that we have seen coming from the strategies of the global corporation is the adverse income concentration effect; that is, that we see and have seen for many years in places like Latin America the association of widening disparity between rich and poor, greater increase in income concentrations associated with a very dramatic increase in the investment by global corporations, and we think that we know why that is so, that in

effect the dramatic growth that has been brought about in such places as Mexico and Brazil, through heavy investment by global corporations, affects a relatively small part of the population, people who either are employed, or who are part of, who are really available for consumers to be consumers, and the same kind of income concentration, adverse income concentration, we think we are beginning to see here. So really the same kind of reasons; namely, that jobs at the lower end of the scale are being destroyed or being phased out by plants moving abroad, and you have got a rather disturbing picture of a decline in labor's ability to bargain effectively with these large corporations for maintaining labor's share in time of serious inflation.

We think that that is a problem that we have seen for a while in Latin American countries and other developing countries that we are now seeing here.

FAILURE OF ANTITRUST POLICIES

Senator CHURCH. May I just say at this point that in view of the failure of antitrust policies in this country, and the truth of the matter is that they are pure tokenism today—once in a while somebody will bring a token case—obviously the policy has failed because giantism is the name of the game, and that conglomerate route has been the way around the antitrust law. But I am very skeptical that even a revised antitrust code that would attempt to come to terms with the conglomerate growth would be an effective means of reinvigorating a free market in this country, simply because of the immense complexities that are involved in lawsuits connected with antitrust actions, the long delays and incapacity of government to cope with the size of the phenomena, and the way that it is transforming the economy.

So I really don't have much confidence in antitrust legislation.

There must be a much more effective way to restore and revitalize the free market, to cope with this oligopoly that is developing.

DIFFERENTIAL TAXES

You mentioned one possible method, differential taxes, which has appealed to me for some time, and seems to be very vigorously opposed. Perhaps it would prove effective.

Can you amplify your position on that particular subject?

Senator PERCY. Could we ask our witness to make that a fairly concise answer and amplify it later? I regretfully must leave in a few minutes and I would like to question them.

Senator CHURCH. Make it concise and then we will turn to Senator Percy.

Mr. MÜLLER. There are three specific problems of policy approach I would take in terms of trying to restore competition and more market transactions, if you will.

One: A systematic differential tax treatment, done by an industry basis. We are already going toward a national plan agency of one form or another, one of the functions we will be able to do this and analytically and be able to identify what kind of industry needs this.

DIFFERENTIAL MONETARY CREDIT POLICIES

Second: Differential monetary credit policies is to combine differential tax and monetary policies through issuances of credit with a

strong movement in corporate disclosure, basically getting at the key consolidation of consolidated balance sheets, and particularly if we are looking at the domestic economic relationship between activities of large corporations in one industry and its transfers of a subsidiary in another industry.

DEVELOPMENT OF COUNTERVAILING POWER

Mr. BARNET. I would add to that that none of these approaches by itself I think has any possibility at all. I do think that the development of countervailing power, attempting really to develop countervailing power in community and through some of the ideas that we discussed.

DIRECT GOVERNMENT INTERVENTION

Third: I think that there are some parts of the economy in which it will be possible and will be necessary for much more direct government intervention. Specifically, I would say in the energy industry. And that the notion of challenged industries in which the government is able to use resources now owned by the people of the United States, particularly in the energy industry, to develop a yardstick for private enterprise I think would be important. I see this very necessary in the food area, in the retail food area. I think that where we can look around the economy and see where the private sector by its own admission has failed, where we have in our central cities today many areas simply devoid of retail food outlets because the large chains cannot make a profit there. Then I think there must be government policies, banks that would support community financed and managed cooperatives, or a number of other ideas which will meet that gap.

Fourth: I think we have a mixed economy now and that we should be able to think about dealing in different sectors in different ways. Senator CHURCH. Senator Percy.

THE IBM CASE

Senator PERCY. Yes, Mr. Chairman, I think it is coincidence that this morning the IBM much heralded and much delayed suit is the biggest, most difficult antitrust case that has probably ever been tried. I know that the attempt of the Federal Government to break up IBM now is going to be a difficult one, but I think we are blessed in having one of the most competent Federal judges, most knowledgeable in this field, trying that case. It's probably been a very, very well-prepared case over a period of years now and will have one of the best examples as to whether or not you can get at this problem through law. I will watch it with terrific interest because I competed for 25 years against the yellow box in Rochester, in photographic fields with tremendous capital, tremendous technological advances, and know-how. Their market share in many parts of the world far exceeds that of IBM. They had an experienced, fantastic organization. I was tempted many times to say it must be illegal. It's so hard to beat your head against that wall and compete with them all over

the world. But we had to do it, and I am not so sure that what they engaged in was an illegal activity and whether the antitrust laws would be adequate to cope with that problem.

"GLOBAL REACH"

The chairman has reviewed your book, "Global Reach," and concluded that not since the early thirties has an article been so ripe for a fundamental reconsideration of corporate power and political responsibility. I agree completely about that.

I think the very fact that the oil industry testified before this subcommittee that they can't any longer cope with the problems that they are encountering now. They have had the trust and responsibility for all these years to establish supply and stabilize prices. Now they say they can't cope with it. And now the Secretary within the last few days gave a basic policy speech in the Midwest, in St. Louis or Kansas City, on what we are going to have to do to move in and assist stabilization and guarantee of source of supply of commodities, with a far greater role for Government, I think probably the timing of your book published last year couldn't be better. I hope it is read by many. I certainly intend to try to go through it. It is a long book but I think I owe it to myself to read it and I hope a lot of corporation executives read it. They won't agree with it but it is going to challenge their thinking and enable them to see their role in a perspective—they are so close to the problem they probably can't see it as you have seen it through your eyes. They will object violently to certain conclusions, obviously, but it will be good for them and good discipline. I think we all have to think through where we are going.

I would like to ask just a few questions relating to some of the conclusions that you have reached.

INCREASED INEQUALITY AND UNEMPLOYMENT

In Senator Church's review he concludes that you see the operations of the global operations action contributing precisely to the following result, an increase in inequality and an increase in unemployment in developing countries. Is that a fair summarization of the conclusions that you have read?

THE EFFECTS OF TECHNOLOGY

Mr. BARNET. Yes, it is, and the reason is fundamentally related to the kind of technology which these corporations are bringing in. They are bringing in technology which is essentially the kind that they have used successfully in developed capital-rich societies, labor saving technology, which has had the effect of creating a given number of jobs, to be sure. But when one looks at key sectors in agriculture, in the construction industry, the fact that this kind of technology has contributed to unemployment, and we have the extraordinary situation that in the manufacturing sector, in Latin America, despite its enormous increase in importance in the total economy there, it is employing a slightly smaller percentage of the work force than it did 50 years ago.

Senator PERCY. I would like to take——
 Mr. MÜLLER. Could I add one point?
 Senator PERCY. Surely.

CHANGES IN UNDERDEVELOPED COUNTRIES

Mr. MÜLLER. I would like to point out that in one of the other fundamental findings there is a tremendous change that is going on in the underdeveloped world in terms of the impact of multinational corporations that has been occurring since roughly 1970. That one can begin to argue that impacts are perhaps in sense of employment creation and in sense of financial balance-of-payments impact beginning to turn around toward positive types as we begin to find increasing negative impact here in this country. Remember, we are living in a global interdependent world, which means when you stick your finger in this part of the bathtub you get a ripple effect down here.

One of the reasons for the turnaround, this is beginning in many countries, is the impacts are still largely negative. We are beginning to see new trends, new effective control by the Third World governments who have the largest experience in dealing with global corporations.

PRODUCTION TRANSFER

The second is because of the types of production that are being transferred, basically from orientations and production in the advanced countries, increasing to the Third World, and this, Senator, is not only a labor intense area such as electrical appliances. Increasingly we find production going on to the Third World because of avoidance of antipollution costs here in the advanced nations, and increasingly because the inherent tax advantages of producing offshore as opposed to producing onshore.

INCREASED INEQUALITY

Senator PERCY. I would like to test your conclusions on the increase in inequality and on employment by being very specific.

You mentioned agriculture. Let's take a few of the major industries there and let's relate them to some of the real problems of the developing world, hunger, overpopulation, and disease. Certainly the prime goals of every developing country on Earth now is to eradicate hunger, to reduce the incidence of disease and early death, and somehow cope with their population growth through a plan of action that was adopted in Bucharest, now an international policy. The multinationals in Illinois relate to these problems would include farm implement manufacturers. Caterpillar is the largest. It creates a billion dollar surplus of balance of payments for our country every single year now there through tremendous operations abroad. In fact, this industry probably exports a third of its product or more, a third to 50 percent. Others are International Harvester, TURNO, J. I. Case, Deere & Co. You can't travel anyplace in the world without seeing factories, service stations, distribution centers, and whether it is the green and yellow Deere or whatever it might be, you see them all over the world.

Then we have International Minerals and Chemical with fertilizer plants and many other companies. I will say, DOW certainly from the Middle West over in Michigan and Du Pont from Delaware.

Then, serving the area of population control and disease, huge pharmaceutical companies in Illinois, SURO with the pill. You go all the way—Baxter Laboratories, all of them doing business abroad. All of them are giant multinationals.

How then, when you see these operations, would you respond? On the surface it would appear as though they are not only serving our national interest by creating tremendous balance-of-payments surpluses for us, enabling us to operate abroad, to buy raw materials, and so forth, but also doing a tremendous job in eradicating disease, helping control population abroad, and providing a means for so doing, and exporting technology and know-how. This is technology we have learned here where we can produce surplus food for all our own people with about 5 percent of our population. It is this technology and know-how which we are willing now to share all over the world for their benefit and for ourselves. On the surface it would appear as though the general good served by these industries are quite high. As I have observed their operation around the world, it seems as though they have become a very responsible part of the host countries in which they work and serve. These countries would be the last ones to ever want to see those multinationals leave them because they have contributed so much to their economies and to the development of what they so basically need.

AGRICULTURAL AND DRUG BUSINESSES

Mr. BARNET. Senator, let me respond specifically with respect to the fertilizer agricultural business and drugs because those are very good examples, I think, of some of the most serious problems that we have seen.

With respect to agriculture business, farm implements, and fertilizers, what we have seen through the development of the so-called green revolution of the process of mechanization of farming in underdeveloped countries, we have seen a process of concentration of agricultural production in fewer hands, greater dependence on entire, mostly in most countries necessary to import and in effect the rendering useless large numbers of marginal farmers.

THE POPULATION PROBLEM

If we are talking about the population problem, I have just returned from Mexico and the population of Mexico City and apparently other large cities in Latin America is increasing at about the rate of 15 percent a year. These estimates are all inexact because people don't know the figures.

Senator PERCY. Overall Mexico is 3.5. Astounding, of course, and showing.

Mr. BARNET. In the big cities there is a tremendous influx of people coming off of the land who are unable to operate because the traditional agricultural sector has really been destroyed. That is when you

receive in a heavy capital intensive agriculture, big combines, fertilizer, capital intensity, you don't need all of this labor.

Now, it seems from the point of view of those countries rather a strange development decision to dispense with that which they are rich in, namely, labor power, and convert to that which they are poor in, namely, capital and the effect has been that only a relatively small number of local people, and increasingly foreign firms, are able in fact to do the agriculture.

I think that we have testimony from leading agronomists who question whether the kind of technology which is going in there is really the kind of technology that makes sense from the point of view of those economies.

As to pharmaceuticals——

FARM LIFE VS. CITY LIFE

Senator PERCY. Who are you to say what makes sense for them? They have made their decision they want to do it. A lot of those people don't want to stay down on the farm any more than you would think of staying down on the farm. They want to move to the cities like people in this country moved to the city. Don't they have the right to do it, get technology, and know-how and get off the farm and get back up where city life is a lot more interesting and exciting and stimulating? As they increase in education they don't want to stay on the farm.

Who are you to say they should?

Mr. BARNET. I have talked to some of those people. I can't say I have talked to anything like all of them. But in many cases it is not a free decision. It simply is a decision of going somewhere to find work because the work that you had for generations no longer exists, and I think when you say that we get into one of the most basic problems here that permeates this whole question. That is, there is no question that in a number of developing countries those who are in charge of government welcome foreign investment on whatever terms and are prepared to do business with them, and in fact often have a personal interest that transcends their interest of their own country.

RELATIONSHIP BETWEEN CORPORATE EXECUTIVES AND LOCAL OFFICIALS

I think it is in that respect that these issues of bribery and the kind of relationships between global corporate executives and local elites in those governments become so important because it is permeating what is intentionally an extremely explosive situation. You cannot go on, it cannot go on developing an economy in which the disparity between rich and poor gets greater and greater without some kind of——

Senator PERCY. Are you saying that the demand for these agricultural implements comes about as a result of someone wanting to make a profit, and, therefore, forcing these products on farmers? Or is it the fact that farmers are better educated, more knowledgeable as to what is going on in the world and don't want to do as man did, be animals with only their muscles and their human energy being used. They want to be able to use their mental capacity which God gave you, to man, and get away from the backbreaking work. Why should they do with hands and shoulders and their backs and their feet what a man

can do if he can operate that machine? Doesn't the demand for these implements come from the farms themselves and the workers, not necessarily the managers at the top here who are trying to somehow industrialize, over the heads of the workers, their economy?

TECHNOLOGY TRANSFERS

Mr. MÜLLER. One of the problems is that not in all cases can we talk about corruption being the reason why we had transfers of technology. What we are talking about is the systematic problem in this world. In 1955, 1960, 1968, most of the Third World countries were beginning to modernize their agriculture. They had not much of an alternative of where to go. The only place they could go was roughly to the United States, the types of companies that you are speaking about.

Unfortunately, as you know, in Third World countries the problem is labor abundance. So one aspect of this is that we just knew proper technology. Until recently we know the Japanese-Western Europeans have developed medium scale more labor intensive technologies and are beginning in fact to see transfers of these kinds are of technological process, but the era after 1950 through the end of 1960 was larger roughly monopoly-type markets in the aggregate.

COST OF TECHNOLOGY

Another question you have to ask yourself is what was the cost of the technology compared to its cost in the local markets. Just about every example that has been used at by courts in the third world has been looked at by economists on the transfer of technology, including agricultural implements.

We find that there was effcessive overpricing of those transfers because of the dependency involved, and finally we have to look at the financing of this technology.

We find most of that technology went into usages of land to develop export crops to create cash reserves which allows for its eventual financing. Unfortunately what happened there was it replaced food that was formerly used for local consumption, so these are systematic types of problems. One has to understand in the context of what we mean by an underdeveloped country, what we mean by a nation which naturally here evolves one kind of technology but is not naturally suited for other parts of the world.

THE PHARMACEUTICAL INDUSTRY

Mr. BARNET. If I could just respond to your question about the pharmaceutical industry. It is here I think where we see some of the worst abuses in the area of transfer prices. We have a number of documented cases where when pharmaceutical companies in effect buy and sell to them, the parent in United States selling to the subsidiary, there is a colossal overpricing. In pharmaceutical firms in Colombia, the studies show 155 percent is an average. In some cases drugs like valium and librium were overpriced 82 and 65 times the market prices.

We also have other abuses of drugs that have been outlawed in the United States because of their harmful effects, being sold frequently in developing countries. I think that there are no doubts that impor-

tant services are being performed by these companies but I think we do ourselves no service if we don't look very specifically, we fail to look very specifically at what the effects of particular products are on particular countries.

I think with respect to the two you mentioned, these are going to complicate and are complicating the development problem.

Now, fortunately, developing countries themselves are getting somewhat more sophisticated by dealing with that.

Senator SYMINGTON. Would you yield for a question there?

I was extremely interested in these gentlemen.

APPLICATION OF THE THEORY

I am very sympathetic with the thinking of Senator Percy in this case because it is practical application of the theory. One thing you always felt when you went into a country in the past has been that you took advantage of what might be termed cheap labor. Today, as you develop machinery, the relative part of labor, I am not talking about picking cotton, but many other aspects, becomes less important as against technology. What you are really doing in many cases, you are exporting technology that in a sense is astute for labor regardless of its price.

Am I right on that?

Mr. BARNET. That is right.

Senator SYMINGTON. You take a true expert maintenance man in the field Senator Percy mentioned. I had lived for many years in Rochester, and Eastman Kodak had dominated an aspect of emissions. You really would only have to send one or two people and then so long as they could correct the breakdown in the hilly technical machinery, you don't worry so much about the labor rate.

Would you comment on that in connection with the exports of the world famous company in Caterpillar.

THE ABUNDANCE OF LABOR

Mr. MÜLLER. I think basically the message here is what we just said before and what you basically repeated. We have tremendous labor abundance in one part of the world. It is not necessarily true when you look at the period 1950 to 1970, that companies were interested in taking advantage of cheap labor because they were exporting capital intensive technology. But what we forget to overlook, and I would like to reemphasize the point, up to 1965 it was largely only U.S. corporations that roamed through the Third World selling technology. The Japanese and Western Europeans were busy with reconstruction. It was only in the mid-sixties they began to accelerate their own global process because their corporations come from land areas that have different resources endowment. For example, differences in resources as compared to United States, differences in labor intensity, particularly Japan, that they in fact developed over the years their own private enterprise, the kind of technology that in fact are particularly in agriculture much more suitable. At the same time, by 1970 to 1972 to 1973 we are finding intense competition going on between global corporations the United States, from Japan, and from Western Germany, England, et cetera, which we never had until the late 1960's.

And this in fact is including the aspect of perhaps adopting and developing new technologies that are much more suitable and take advantage of the abundant labor.

And the final analysis of this is that, yes some labor-intensive industries, such as electrical appliances and supply operations have seen that source of cheap labor out there and in fact they have transferred out, causing the problems here.

I think the kind of answer we are making to Senator Percy in terms of the period 1960 to 1970, showing the negative aspect of what is happening, can be explained by understanding the transformation of the world's political economy from the end of World War II to 1970 and the beginning of a turnabout, particularly in this area of labor impact and employment impact and financing that are now taking place in the Third World. We have to understand that we are going through a period of transition that the question here and your question which may well relate to an accurate description of 1960 to 1970, does no longer necessarily relate to an accurate description of what is coming in 1970 to 1980.

INTRODUCTION OF AGRICULTURAL IMPLEMENTS

Senator PERCY. If I could get back to your concern then. I appreciate the question by Senator Symington. But to go back to your concern that as a result of the introduction of agricultural implements, and so forth, we have fewer people living on the farm. You may have fewer farm jobs, this is absolutely true.

But is this not really the trend that is inevitable, that people are moving away from the farm, and when you talk about the shrinking base of choices in manufacturing, which means that a decreasing share of the national income for labor, weakening of laborer's bargaining power in the face of constraint, and increase in capital portion of national income, is this because of the multinational corporations? Or, if it did not take that form would it be inevitable anyway? As long as you are going to increase the educational level of people, they are going to want to get away from menial tasks. A lot of factory work is terribly monotonous, and terribly menial, and terribly boring, as we well know, and certainly it is true in other economies that fewer and fewer people are engaged in the actual process of manufacturing, the actual process of farming, and that is going to be inevitable in other countries. But it is not because of the multinational corporation; they are simply serving a need that exists to want to get away from menial labor. We are moving into more service oriented types of occupations, more doctors, more teachers, more nurses, all types of service jobs. Such people cannot replace what they have in their head with a machine and they are using people's brains rather than just their muscular energy. I do not see that the multinational corporation can be blamed for it. The American multinational has helped eradicate disease, has helped move people toward greater food production, helped reduce population, and they could not be blamed for it. I think they should be commended for it.

PROFIT MARGINS

You mentioned a profit margin on certain pharmaceuticals. It is always possible to pick a single product and say it is overpriced, but

who is to decide it is overpriced? How about all those that are underpriced where they have lost money? I think you have to take the overall balance sheet figure and P. & L. and say, is 15 percent after tax too much or too little, and do they put too much or too little in advertising or research and development? But when you start regulating, controlling that, you cannot just pick out of the air and name a few instances of a few products where the profit margin does seem excessive without being fair and say let us list the products where they have a loss. If you are going to legislate too high a profit, then you had better start legislating to make up the losses when you have a planned control and, not the——

Mr. BARNET. The figure 155 percent in the pharmaceutical industry, 40 percent in the rubber industry, 16 to 60 percent in the electronic, 16 that we noted, was from industry-wide studies over a long period of time.

Senator PERCY. Take the electronics, you are talking about RCA, Admiral.

Mr. BARNET. Yes, sir.

Senator PERCY. And they're averaging 60 percent profits after taxes.

OVER-PRICING

Mr. BARNET. Not profits. The over-pricing of particular items in Columbia through transfers.

Senator PERCY. Who says that they are over-pricing? Who is this omniscient body who puts himself imperially——

Mr. MÜLLER. Prices based on, including transportation and tariff, based on looking at U.S. wholesale prices, looking at the wholesale prices in advanced countries where there are——

Senator PERCY. Have you studied a balance sheet of Admiral Corporation?

Mr. MÜLLER. Let me add one more thing.

Senator PERCY. Look at the overall.

Mr. MÜLLER. A number of econometrical studies have now been published including one of ours that took, for example, 62 percent of the total manufacturing, 62 percent of all of Latin America from 1967 to 1969. That is 62 percent of the total universe of all of that trade. Over half of it was being controlled by global corporations.

UNDER-PRICING

On the average, Senator, the global corporations were underpricing their exports by 40 to 60 percent. Now any statistician who walks in here will tell you, given the huge population that was used, that there has to be some reality behind those statistics.

In addition, it is not only Columbia we are talking about, but studies that have been done for the last 10 to 15 years in countries like India, Pakistan, Philippines, Brazil, Mexico, on and on. We are talking about not only economic industry studies, we are talking about conviction in court. It starts out with the Kefauver hearings, if you remember, and it gets up-dated time and time again until the early 1970's.

Senator PERCY. The figures you are giving me, giving the subcommittee, are figures on profit margins on manufacturing products overseas.

Mr. MÜLLER. The figures we just mentioned.

Senator PERCY. Not overall corporate figures.

Mr. MÜLLER. The figures we just mentioned are either over-pricing of imports or under-pricing of exports.

THE RAND CORPORATION STUDY

The Rand Corporation, in its study, says that the minimum rate of return in the manufacturing sector of U.S. global corporations in the 1950's and 1960's, not taking into account, three-fourths of the possible over-pricing and under-pricing that was going on—the minimum rate of return, Senator, was 40 percent per year on the invested dollar. Statistics from it, which is not noted necessarily as a radical-neck establishment, shows that the after-payback-period on investments in the manufacturing industry, particularly the automobile sector, is 18 months in this period of the 1950's through 1960's. Ask yourself this question. Why is it that from the most fascist right wing types of governments over to the most liberal democratic types of governments we all see in the Third World the absolute necessity to bring about new controlled measures and the key focus is to get at the nonmarket transfers of the global corporations. It is because no markets existed that in these prices and these types of pricing policies were possible.

Senator PERCY. Did it ever occur to you that there is no government that can force the citizens and consumers of its country to buy these products, that if these products are so overpriced, there is no law I know of in any country that says people have to buy them. They must apparently be buying for a reason. There is a shortage or there is such a dearth of manufacturing of goods in that area that no matter what they charge there is such scarcity of product they can get that price. Maybe the corporation has to take into account that they have to earn their money reasonably fast because of the record of expropriation or nationalization or seizure of assets without compensation. And so they may get in and get out. Now, there is that possibility. Have you taken that into account? Why is it they can command what would appear to be outrageous prices? Maybe to the corporation has taken one terrific risk in going into a country, taking into account past patterns. Maybe they feel they have to make up for that risk by a fairly large profit and they are able to charge it in what might be considered a free market.

Mr. MÜLLER. If you make two points here. Number one, if you take in account simply, people are dying and penicillin will save a life and there is in fact a court-documented conspiracy going on between the four and five major multidrug companies, the only ones producing in the country, you have a severe dependency and you can get the kind of monopoly prices that you want.

DIFFERENCE OF DIFFERENTIAL RISK

Number two, risk. I would suggest, yes, there may have been some difference of differential risk in going in the Third World, but in

1970, according to State Department documents, the amount of expropriation and nationalization in the manufacturing sector that we are talking about is almost nil, it is statistically insignificant. It cannot explain the risk differential that leads to a profit differential between 15 and 18 percent return on the dollar invested at home versus anywhere from 60 to 120 percent invested overseas in underdeveloped countries.

INTERLOCKING DIRECTORATES

Senator PERCY. I would like to ask you about the comment in Senator Church's review of your book, in which he indicates that you have commented on the concentration of financial assets in some 20 or 30 banks.

We do have some 20 or 30 banks that are very, very large in this country, and you characterize them as by interlocking directorates. That is Senator Church's comment on that. The interlocking directorates that you refer to, are these between banks or between multinational corporations and bank board membership?

Mr. BARNET. Both, Senator. They are interlocking directorates between banking groups and between particular multinational corporations and particular banks, and the particular problem of the bank and one that I think is now being increasingly noticed in New York State, for example, is the fact that assets of the people of New York deposits are going into a relatively small number of banks who then find it in their final interest to invest large amounts of these overseas with the result that there is a loss of working capital for the local communities in the United States.

THE BANKS AND BANKRUPTCY

I think that the problem of the banks that you mentioned is one of the most serious aspects of this whole problem and one that most requires additional investigation and legislation.

Senator PERCY. Do you conclude that it is bad per se for there to be 20 or 30 banks in this country concentrated essentially in New York that are as big as they are?

Mr. BARNET. Absolutely; and I think it is particularly dangerous.

Senator PERCY. If you think that is bad, whom do you think Mayor Beame is going to now. This morning he is sitting right now—this morning, he has been told by the Federal Government they cannot come to him, he has been told by the State you come to us, and we have real conditions and terms on it, he has payrolls to meet.

Mr. BARNET. He is going to—

Senator PERCY. Chances of getting those loans from 100 small banks or 1,000 small banks would be any better or sitting down to 2 or 3 banks and saying will you please help us, bail us out of a bankruptcy situation, the largest city in America.

Mr. BARNET. And it is shocking, Senator, in my view that the head of a great city, has got to go hat in hand to a small—

Senator PERCY. Maybe it is. The Federal Government has kicked him out and he is going to Albany and they have said do not come to us. Where else is he going to go? Is it not rather better that he has some place to go?

CONCENTRATION ON ECONOMIC POWER

Mr. BARNET. We are talking about, Senator, a degree of concentration of economic power which makes it impossible really to protect the public interest, and it is not only concentration of economic power in banks, but banks are becoming conglomerates through the one bank holding company. We have banks using their tremendous power in one area, for example, in deposits to move, say, into credit, move into insurance, move into leasing, in effect more and more concentrating parts of the economy, other parts of the economy in fewer hands. The same problem that you have raised, something similar it seems to me behind every one of your questions, which is that what I think your query illustration is the degree of dependence that we all already have on these large institutions.

It is the same problem of the poor farmer in Mexico. I assure you he did not choose to come and live in the barrio in Mexico without water and with most obscene living conditions because he preferred that to tilling his farm back in the provinces. He did it because he had no choice. I am reasonably sure Mayor Beame did not want to be in the position he is, but we have allowed to develop a developing pattern in this country, a pattern that we have exported now to the undeveloped countries which is premised on the increasing acceleration of power in what are primarily private hands. And that problem permeates everyone of the questions that we have raised and is a problem primarily of distorted concentration of political power. I think that we need to look much more carefully at what the real impacts are of these institutions both in our own community and abroad.

Frankly, I think that we have allowed ourselves to accept a great deal of rhetoric about the operation of our system, in using terms like free enterprise and free market when from any analytical standpoint they no longer really exist.

Senator PERCY. If you want to look at growth industry, though, there are fewer growth industries I can name that even compared to the growth of government in recent years.

THE CONCENTRATION OF POWER IN THE FEDERAL GOVERNMENT

Are you concerned about the concentration of power in the Federal Government, are you concerned about the growing proportion of our GNP that is raised in the Federal budget?

Mr. BARNET. Very much concerned.

Senator PERCY. Are you concerned about \$500 billion debt that requires \$35 billion a year to finance it?

Mr. BARNET. I am very much concerned about it and that is why in our book we have made a series of proposals for strengthening the countervailing power of communities at the local level and at the State level in order to deal with the problem of disproportionate corporate power.

I believe that ultimately what has to happen in particular territories, whether in the United States or anywhere, in order to preserve some kind of stability in a given geographical area are going to have to have much more power themselves to deal with corporations. I do

not think you can simply look to the Federal Government to do this, although obviously, Federal legislation will have to be brought to—

Mr. MÜLLER. Could I add one thing on New York City, an example as related to Richard's answer to you about government deficit.

THE FISCAL CRISIS OF NEW YORK CITY

The other side of your question of Mayor Beame is why is New York in such a fiscal mess? Why is it in such a fiscal crisis? Can we not ask the question what has happened to the tax base of New York City? And we find that it is very similar to what is happening to the tax base of the Federal Government.

Recent studies just completed by City University of New York by Prof. Richard Morgenstern, et cetera, all show the banks more and more, in financial institutions and management service institutions in that city, have an effective tax rate of something like 50 to 60 percent less than the manufacturing sector and less than small business.

We find the same problem here in Federal Government that—

THE CHASE MANHATTAN BANK AND NEW YORK

Senator PERCY. Could I interrupt you there? Having sat on a Chase Manhattan Bank board for 15 years, I cannot imagine any institution to do more than the Chase did to try to keep a safe downtown, keep industry in New York and to prevent it from going out. They had done this long before any mayors of New York realized what was happening to their tax base by migrations out. They were most concerned and did everything they could.

Mr. MÜLLER. I do not deny it was good business in the real estate boom of New York for Chase Manhattan to try and save buildings and rent.

Senator PERCY. It was in their self-interest to do so.

Mr. MÜLLER. I am also stating that according to the best knowledge that we have, is that the larger these banks are the more global they become, the more of a conglomerate nature they become, the greater is their ability to pay much lower effective tax rate than other smaller strictly national banks or strictly national business. We have to ask the question why and are we not back to the whole question of the information crisis? Are we not back to the whole question of this society no longer basically for most of the period of business cycles operating off of a market mechanism and how does that relate to the fiscal crisis of government?

THE TAX BASE

Senator PERCY. I think that gets back to Senator Church's basic questions on the tax base. I have no doubt we owe it to ourselves and our whole national development to look at that tax base to see if what we were trying to do is a matter of national policy in encouraging companies to invest capital, knowhow, and experience abroad, gives the foreign countries an employment base for them to develop their industrialized economies and get away from a one crop economy and dependence. We were trying to help them to do it, and we did it through multinational corporations and through national policy of

encouragement of them. Maybe that process can be altered and changed. Maybe we do need to encourage more investment in this country and maybe we ought to take a good hard look at it. I think you have raised a very good question. I am not questioning but I wonder, and I will close my questions with these two comments.

REPLACING THE MULTINATIONAL CORPORATION

What do we replace the multinational corporations with? It has grown up like "Topsy." It is big to our economic way of life and has grown very rapidly. It has been successful. What do we do? What do we replace it with now? Second, you indicated that we ought to make corporate executives more responsive and maybe elect them. I played around with ideas such as how do we get corporations more responsive to the public good and public need and so forth. How would you go about electing them? Who would be the electors? What role would the public play? What role would the stockholder play, the employee play, and so forth?

Mr. MÜLLER. On the first part of your question I think to ask the question how do we replace the multinational corporation is perhaps not the best way to ask the question. The question is—

Senator PERCY. You may improve on my question. Where do you go from here?

Mr. MÜLLER. The key question is in taking a strong look at what is happening to our economy in both government, business, and labor, what is happening in income distribution, what is happening in financial control, what are those social sectors, what are those industrial sectors where one can think about alternatives to global corporations and what are those sectors where one needs not necessarily talk about alternatives but perhaps more effective control.

I think that would be the beginning of the kind of questions we need answered here in this country.

ECONOMIC EFFICIENCY

Mr. BARNET. I think we need perhaps also to ask a more basic question, and that is what really are we after in our economy with respect to efficiency. We have a definition of efficiency in the country which is extremely narrow, which really is directly related to the balance sheet and which leaves out of the account all of the social effects, the environmental effects, the real costs that are pushed on—the real costs of industrial advantages that are pushed off on to the population. I believe that it is by no means inevitable that, as you have suggested at some point in the discussion this morning, maybe bigness and growth is some kind of a law of nature or ordained in the universe.

I think that growth of the kind that we have been talking about has developed because it has been deliberately fostered by very specific public policies and that if one were to pursue a policy such as we have been proposing, differential tax rates and other measures to favor small business, to attach new and special responsibilities upon corporations that in fact achieve such a role of dominance the communities are dependent on them, I think that would be some very strong incentive on the part of managers of companies to consider whether they want to go over that.

I also think that we can seriously reconsider the notion that it is economically efficient, even in the narrow balance sheet terms that I have been talking about, to combine so many different industrial products in a single company or in a single corporate entity.

INCREASED COMMUNITY PARTICIPATION

I think that there are a number of possibilities for getting increased community representation and participation, I would favor very much, a machinery for local community representation. The interest of local communities as well as increased representation of labor as we are now seeing in some European countries, in corporations, particularly really at the plant level, at the local subsidiary level, where in fact a subsidiary should not only be responsible to its parent maybe 5,000 miles away, but also be responsible to community representatives and to labor representatives because ultimately all of these problems really come down to, really fall into classic patterns of the problems of absentee ownership. What we are seeing is not so different from the problem we saw 50 and 100 years ago of a corporation leaving a mill-town in New England which had become totally dependent upon it because the profit picture dictated their moving elsewhere. I think we simply have to balance these communities against the profit interest by creating some machinery for these industries.

Senator PERCY. I want to thank our very eminent witnesses this morning for a very provocative discussion and I think that is the purpose of these hearings, and I want to commend the chairman and staff for having them.

It is unthinkable we have corporation executives here defending the status quo. There is not any question that we can improve a great deal on modifying and perhaps change and alter our system of relationships between government and corporations. But I think we, in perspective, cannot lose sight of its accomplishments with all of its imperfections. As I see the tremendous desire of Communist and totalitarian countries to get the technology and know-how that we have got, and somehow shape up. When you see all of the Europeans and Japan working toward organizing themselves after the way we have organized our corporate life, it cannot be all bad. It has provided a tremendous amount of undisputed leadership and technological advances for the world to see.

ROLE OF REGULATORY AGENCIES

When we look at regulations, the Congress is now joining with the executive branch in an intensive study to see whether we should or should not overhaul and totally dismantle our regulatory agencies. We only need look at ICC and see what the benevolent hand of Government is capable of doing, almost literally reorganizing an industry, reorganizing a transportation system of a country through its overregulation and its inability to find a way to move us ahead in this field. And heaven help us if we turn to Government to regulate our economy the same way we have regulated through the ICC our transportation system.

So I think there is no panacea. You certainly opened up very, very stimulating areas for consideration and thought, and I played the role

of devil's advocate to be sure. I will read now with greater interest and more carefully the very scholarly volume you have put together.

Mr. BARNET. Thank you.

Senator CHURCH. Thank you.

I just have three quick questions.

BIG CORPORATIONS, BIG LABOR UNIONS, BIG GOVERNMENT

First, does not bigness—I think it is a self evident question—but bigness does beget bigness. That is to say, big business corporations and big labor unions beget big governments. Is that axiomatic?

Mr. BARNET. Yes it is, and I think this whole process of bigness and concentration is going against some very, very strong trends that are working in the world feeling that people have that government, if it is to be controllable and if it is to be effective, has to be decentralized, has to be much less concentrated in remote areas, and also I think in business. So I do not think this bigness is by any means inevitable. I think it is inevitable if our policies dictate it.

Senator CHURCH. Our policy has been in the direction of bigness and bigness is thought to be the ultimate virtue of our society for a longer period of time.

Since that has been the case, big government has grown at a pace with bigness in labor and in business and the effort has always been in the direction of regulating or controlling these big enterprises. As Senator Percy has pointed out, the effectiveness of governmental regulation has not been very reassuring.

Mr. MÜLLER. Can I comment on that last point, please?

Senator CHURCH. Yes.

WHO IS RESPONSIBLE?

Mr. MÜLLER. One has to ask the question who is government here, finally. One has to ask the question who in fact designed regulations that ICC became responsible for. And one has to ask the question who enforced those regulations.

One of the relationships between bigness and bigness is that bigness in private business has a character and quality that that bigness in government increasingly begins to take on.

Senator CHURCH. And the regulators are soon co-opted by those they regulate. But that is, I think, a problem here that is not going to be corrected by its discovery. I think that you will find that in the course of time regulating agencies are taken over by the very industries they attempt to regulate.

Mr. BARNET. One of the proposals we make in the book which we put forward for discussion is the election of officials of regulatory agencies. Why should those who are charged with regulating our basic industries make claims to the people as to the way in which they think the regulation ought to take place?

NATIONAL SOVEREIGNTY VS. GLOBAL CORPORATIONS

Senator CHURCH. That is a very interesting argument.

The second question that I have is very broad but these multinational corporations since they have grown so large and now have so great an impact upon the economies of both the parent countries and

host countries, are locked in a struggle with national governments, with national sovereignties all over the world. There have been such historic struggles before, not of this particular kind, but struggles between national sovereignty and the universality, let us say, of Christian religions in the days of preeminent Catholicism in Europe, and national sovereignty won out. The prerogatives of the King came to supplant the prerogatives of the Pope.

Do you see this present struggle between sovereign governments on the one hand and global corporations on the other being one that will finally end in the victory for one side? That is, do you see a decisive outcome favoring one side over the other?

MR. MÜLLER. I think there are two things that have to be said. There are two possibilities here. One is that in fact we are going to see a continuing erosion, and I am saying that as a scientist now in trying to attach specific probability to this. One, we will continue to see erosion of national sovereignty. I tried to emphasize in my opening remarks international harmonization and monetary fiscal policy. As you well know, control of the domestic money supply and capacity to tax are two hallmarks of effective sovereignty. When we begin to have to internationally harmonize these two aspects of sovereignty I think we have further erosion.

SENATOR CHURCH. Is it not, assuming that you are right—

MR. MÜLLER. I am saying there is another probability here, another possibility which I would like to just add to.

I think, however, that what we talked about before is finally perhaps becoming a recognition in the United States, that the development path we have been on in the past is perhaps not the one that we should be on in the future. When we take the issues of ecology and combine them with economics and technology, and we think about the new types of goals that perhaps this Nation will have to arrive at, the whole reason for the present bill placed before Congress on having a balanced growth and national planning board, once we start thinking about the different position of output, and this is perhaps a very difficult point but, therefore, a difference of technology evolving over the next 50 years, then we begin to see perhaps a lesser necessity for global interdependence than we have utilizing today's type of technology, today's type of consumption goals. This is perhaps breeding a force toward more national economy, toward more community autonomy.

MR. BARNET. I think the issue is not so much which is going to survive but what is going to be the character of government as a result of this tension. The fact that the views of force are still largely in national hands, the fact that national loyalty is still very, very strong and particularly territorial loyalty. I think that maybe it may be better than talking about national loyalty versus corporate. We are talking about an attachment to territory, to a piece of earth versus attachment to a supernational economic entity and idea. I think the real danger that I see with the unlimited growth of multinational corporations is not that we are not going to have government, it is the kind of government that we are going to have, and I think it is a particularly important foreign policy problem for the United States in the developing world.

DEVELOPMENT MODEL

There is a clear relationship in my view between the kind of development model which is being promoted through the global corporation, which is one which has the unfortunate income concentration effect that we talked about, and the growth of oppressive authoritarian government. I think it is not because governments wish to torture their citizens or wish to repress dissidents and political opposition, but because given a model which offers no hope to a majority of the people, they have no alternative, and to the extent that our multinational corporations are part of that process. I am dismayed by the ease with which global corporation executives are willing to endorse governments which engage in these practices and seem to gravitate in their investment to countries with the most repressive sort of regime.

I think that is a serious long-term problem and perhaps not so long-term for American foreign policy, because as much as these corporations may seek to dissociate themselves from the U.S. Government and to be a national corporation as some of them like to call themselves, they are perceived as extensions of the United States and the kind of reaction, hostile reactions, that we can expect around the world through the development of these kinds of relationships I think is going to present very serious problems for us in the future.

MULTINATIONAL CORPORATIONS AS FORERUNNER OF STATE CAPITALISM

Senator CHURCH. I am surprised the way you gentlemen have not looked at the other side of this coin in forecasting the future, which is that the multinational corporations may in fact be the forerunner of state capitalism, which is normally called socialism, but takes the form of state capitalism in most cases. Competition will not be won by the global corporation through a breakdown of national sovereignty but, in fact, for many reasons, including the last example you gave, and others that I could give, will turn into just the reverse. Once the technology has been spread through the mechanism of the global corporation, once the plants and factories have been distributed broadly, so that nation states come to possess both the technology and capability of producing these products, then through a process of nationalization they will be taken over, even as the general oil companies are in fact being taken over today in the Middle East. Although equity ownership may be replaced by contractual arrangements in the first generation following the nationalization of the property, the second and third generation will no doubt see a much larger indigenous representation and finally a total indigenous takeover.

I mean there is another way for this thing to work out; it is quite different from the one that you gentlemen have envisioned, and for which there is much evidence in the present world picture.

Mr. MÜLLER. Senator, if we take your last statement, the breakdown, the nationalization winning out over the private transnationalization of production, that in fact is quite probably I think over a period of 50 to 60 years. But the issue that I think that we have to look at in many ways, it is always easier to predict the long run than the short

run, is the next 20 years. Let's take the so-called activity of the OPEC nations vis-a-vis the oil companies. I think this is an example which best epitomizes the transnational capacity of the company to win out and its ability to bounce from one side of the table to another over the net without ever falling off the table.

What the OPEC and energy crises and the gradual nationalization of extraction process represents was increasing the bargaining power of the host countries. People often think that "if in any given country the bargaining power of the country to control the corporation and private enterprises it has increased is a zero subgame. What the Government wins the corporation loses. Not so with transnational corporations. Because what in fact happens with OPEC, as you well know, was that the companies did not lose out. They relatively gained, and this is the essence of the transnational mobility of the corporation to maintain its real economic market and without it I suggest therefore because of political accountability, its political power. And it is in the short run that I see various kinds of tensions developing that we are really not yet fully aware of. What we find are new patterns of relationships between Brazil, Iran, and Japan where in fact it is not only Brazil iron going to Iran, being processed by technology of Japanese corporations, and whole financing being carried out by Iran, but in fact company and service management contracts of Marconi. So even as we have the shift of geographic economic flows and power we find again that a corporation goes in other areas because of their transnational mobility, their ability to adapt further where ownership meant to control, to control means technology, to an era of management service contract form. This shows you just how mobile they are and I think in connection of the next 10 to 15 to 20 years it is the kind of base of tension we will have to have and have to get. In the longer runs, 50 years, your response and ours might well prove to be correct.

Mr. BARNET. I think what we do in the next 20 years, particularly in the very near future, will critically determine what the long-time patterns are because there are a number—if you look ahead beyond this 20-year period—of variations in your scenario that are quite plausible and some look a great deal more attractive than others.

Senator CHURCH. Well, I want to thank you both very much for an extremely interesting conversation this morning. It has been helpful to have had both of you here and I wish you well with your book.

This committee hearing has not been meant for the purpose of promoting it. Still it is a very provocative book and takes us a step further in our understanding of multinational corporations.

Thank you.

Mr. BARNET. Thank you.

Mr. MÜLLER. Thank you.

PREPARED STATEMENT OF DR. RONALD E. MÜLLER, PROFESSOR, DEPARTMENT OF ECONOMICS, THE AMERICAN UNIVERSITY

I would like to take this opportunity to enter into a dialogue on the foreign relations aspect of Multinational Corporations as they concern the current domestic economic crisis, more particularly, as they relate to the visible process of national instability that this country has been and will continue to be facing into the foreseeable future. To initiate our discussion, I shall present briefly some major conclusions on the relationship between MNCs and the instability of the U.S. economy. Because my analytical framework is relatively new and is

helpful as a background for amplification of these conclusions, I wish to request that a summary article of mine, published in the May-June 1975 issue of *Challenge: The Magazine of Economic Affairs*, be entered into the permanent record to accompany my verbal testimony. For the policymakers' purpose, this article is perhaps significant because it received recognition from an editorial advisory board that includes a wide array of distinguished economists of quite different schools of thought.

My first conclusion is that there remains among government officials a basic lack of recognition about the intensity and new types of global interdependence brought to our economy by the expansion of its multinational corporations and banks. Specifically, there persists in our policy-making a failure to appreciate the uniqueness of multinationals as compared to strictly national enterprises. Our various government stabilization tools, those for both domestic and foreign sectors, continue to assume that the response to, and the impacts of these policies are the same for multinationals as for national firms. This policy-making assumption is erroneous and is all the more regrettable since some 700 or so multinational agri-business, industrial, and financial corporations account for about 70% of the total private sector activity of this country.

A second major conclusion as regards the impacts of multinational corporations is that the U.S. Government is increasingly losing effective control over the economy. This loss of control is explained by attempts to manage the economy through the use of standard economic stabilization policies designed for times past. Current macro-policy yields not only ineffective, but at times, perverse results. Policy formulation does not take into account the transformation of our political economy brought about by the global mobility and revolutionary new business practices of its dominant actors, the multinational corporations. Instead, our policy assumes an economy dominated by national single-industry firms conducting business through the competitive market mechanism. This is in stark contrast to the reality of a private sector, some of 70% of which is dominated by a relatively few number of multinationals, almost all of which are multi-industry conglomerates and which can evade and/or negate the institution of the competitive market. In short, we live in a largely post-Market Society which our policy continues to honor the myth of a market economy. Since the mid-1960s, standard monetary and fiscal policy has produced a set of "Vicious Circles" reminiscent of a syndrome heretofore only experienced in the dual economy of a typical underdeveloped nation: The multinationals can successfully evade or delay their response to macro policies, smaller strictly national businesses, farms, and banks cannot. Thus the latter's role in the economy is further eroded while that of the multinationals is enhanced; with the upshot that in the next round of application, policy impacts become even more ineffective while continuing to raise concentration. The resulting national economic instability is characterized not only by price-inflation combined with rising unemployment, balance of payment problems, and lowered rates of growth in national productivity. It also includes the politically important topics of increasing income inequality and a significant erosion of the U.S. Government's corporate tax base, the costs of both being largely borne by middle-income Americans. Although we shall experience a lowering in inflation and a slight improvement in employment over the next 18 months, it is my opinion that the present policy approach will, by 1978, land us right back in a similar, if not worse situation than we have now.

A third and related conclusion is that effective new approaches to economic stabilization policy will be forthcoming only when the government overcomes the "Information Crisis" in which it now finds itself. The "systemic" power of the multinational corporation to circumvent policy is based on its control of information, too much of which is never revealed to national business, labor, or government. Although the information dearth surrounding the so-called energy crisis, the ITT-Chile affair, and the domestic as well as foreign cases of corruption are dramatic examples of this issue, they pale however in the face of the information needs for developing adequate stabilization policies while maintaining economic and therefore political accountability. Contemporary corporate disclosure laws assume away the fact of the non-market, inter-country and inter-industry, "accounting-mobility" of the multinationals. So-called market generated, *reported* sales, costs, and profit statistics hide more than they reveal as do the use of consolidated balance sheets. When the *actual* origin and value of these statistics are not known, then at best there is great uncertainty, at worst, perversity, in establishing fair tax liabilities and wage adjustments. Herein lies

the chief causal factor behind the decline in the countervailing power of national business and labor to maintain their relative economic positions; herein the decline of the government's own countervailing power to maintain a stable and equitable economy within the framework of an open and democratic society.

A fourth conclusion relates directly to this subcommittee. Your pioneering and balanced approach to many of the topics encompassing the multinational corporation could now place further emphasis on some of the newer more intimate links between global and national issues. For example, there are various new proposals being made by international bodies on the control of transnational corporate activities, e.g., UNCTAD's proposed Transfer of Technology Code and the OAS and other efforts at drafting a Code of Conduct on Transnational Enterprises. Given our economy's degree of global interdependence, such proposals each have different types of economic impacts on different domestic political ramifications. Each, therefore, has different probability levels of U.S. foreign policy support depending on the accuracy for gauging ensuing domestic impacts and the degree to which affected constituencies will be informed.

Fifth and related is the conclusion that growing national and international economic and, therefore, political instability now necessitates the commencement of Congressional-sponsored hearings and analysis specifically linking the restoration of stability to new control measures over multinational corporations and banks. Certain of these measures can be affected through international, and/or national institutions. The domestic versus foreign policy trade-offs involved are of enormous import for the years to come. Some measures needed to restore domestic economic stability and political accountability, such as corporate disclosure, will require international harmonization and a vigorous foreign policy stance to make them economically feasible at home. Whether or not harmonization should, can or will have to extend to monetary and fiscal policy, Euro-currency banking regulations, anti-trust policy, etc., is quite another question, and one which lies at the heart of the sovereignty issue. International harmonization means a new level of direct government planning. And this comes at a time of growing recognition for government planning for the national economy. In a globally interdependent world each type of planning, international and national, is intimately part of the other. A decision about one implies an impact upon the other. Thus the necessity for planning is upon us faster than some may desire. Yet the necessity is there. The fundamental question of planning is not so much its economic feasibility, for that has long since been demonstrated. For the United States, the question is planning by whom and for whom. How in fact do we develop a *democratic social* planning process that maintains the American tradition of checks and balances while at the same time allowing us to restore economic and ecological stability?

This is not to say that I support a largely international approach to the control of multinationals. On the contrary, I recommend that emphasis be placed on a national approach. When considering recommendations it should be remembered that the MNC control objective is intimately linked to the objective of restoring national economic stability. As I have outlined in Testimony earlier this year to the Joint Economic Committee¹, certain national policies for the achievement of stability will assist also in realizing part of the MNC control objective. Such policies are aimed at preventing further concentration advances for MNCs, increase the competitiveness of smaller national firms, and thereby promote stabilization of the economy. These strictly national approaches include strong differential treatment in credit and tax policy to the advantage of smaller firms. In addition, for reversing the deteriorating trends in income equality, government tax revenues, structural unemployment, and national productivity, tax laws governing new investment should be rewritten to favor domestic not foreign private investment (as is now the case) of U.S. firms. Another area which lends itself to a direct national approach to the control of U.S. MNCs is a sector-specific program in energy, transportation, and agriculture. (These sector recommendations are also included in the JEC testimony). New corporate disclosure law is the most immediate areas in which the U.S. government should take a strong national approach combined with a vigorous foreign policy to promote international harmonization. At least partial international harmonization with new U.S. laws on corporate disclosure is necessary because of the present *overall* economy's dependency on the foreign earnings of U.S. MNCs. (By 1973, an esti-

¹ Ronald E. Müller, Written and Verbal Testimony, "Current Economic Problems of the U.S.," delivered before the Joint Economic Committee of the U.S. Congress on March 5, 1975.

mated 30% or more of all U.S. corporate earnings were being derived from overseas transactions.)

It would require a separate testimony topic to deal with my sixth conclusion, but a brief statement is necessary as concerns another link between foreign policy and U.S. economic instability. Our current foreign policy, as regards Third World nations and their accelerating new involvements with Europe and Japan, is failing to take cognizance of the emergence of a "New Era" in international and economic relations. Third World nations are achieving new control and new bargaining power over MNCs, and therefore a bettering of their terms of trade with advanced nations. This development of a "new international economic order" will continue, with or without U.S. positive involvement. Presently our foreign policy is attempting a disruptive role, e.g. the State Department's announcements at the UNIDO Meetings in Lima, April 1975. The Administration's current stance has not recognized the new "4-Polar Geopolitical Grouping" of nations that are now the basis of international and national economic, and therefore, political dynamics. Therefore a failure to recognize the new necessities of a financially and technologically rich, but natural resource poor with high foreign sector dependency, grouping of Japan and Western Europe: these nations in contrast to another group of developed nations like the U.S. and Australia.

And there is of course the two distinct groups of the resource (and relatively financially) rich and resource poor underdeveloped nations of the Third World. The new economic interdependencies developing between the three non-U.S. types of nations are gaining momentum as there occurs a diminution of U.S. influence among them. There increasingly will result a change in worldwide terms of trade with ensuing impacts feeding back on growth potential and domestic income distribution patterns of the U.S. economy, with a further aggravation of national economic instability. Recognition and involvement in this trend toward a new pattern of world trade and commerce could minimize the destabilizing impacts on the U.S. economy, given proper domestic economic adjustments. To continue to act as if we were in the Bi-Polar, Rich-Poor, "North-South" world of the 1950's and 1960's will only forestall the inevitable while increasing domestic hardships. Although my statement on this topic² is overly limited and therefore cryptic, I do recommend that the subcommittee address its attention to this aspect of MNCs and U.S. foreign policy.

HON. FRANK CHURCH,
U.S. Senate,
Washington, D.C.

DEAR FRANK: As a result of the hearings of your Subcommittee on May 19 on Global Reach at which the authors, Ronald Müller and Richard Barnett testified, I have been asked to have included in the printed testimony a critique of their book. I attach a copy of "A Critical Commentary on 'Global Reach'" for your study and hope you will approve the request to include it.

Given its length you may wish, however, to include only the "Conclusions" beginning on page 26. I find these succinct and to the point and an adequate summation of the commentary, if printing costs or other considerations might deter you from printing the whole document. If you should decide to take this approach a simple statement in the record that the complete critique is available in the Committee's files might be added.

Mr. Ronald L. Daniellian, Director of the Center for Multinational Studies, has been contacted by my staff and says he has no objection to having the article reprinted in its entirety or in the abbreviated form suggested above.

With best wishes,
Sincerely,

HUGH SCOTT,
United States Senator.

[Subcommittee staff note: The complete critique is available in the subcommittee's files.]

CONCLUSION: ASSESSING GLOBAL REACH

At the outset it must be recalled and acknowledged that this book is somewhat different from other studies of the multinationals. It is not an academic, economic, or political study of private corporations in the international system;

² See my essay, "Power and the Potential for Change: The New Geopolitics of Global Corporations and Third World Nations," Papers and Proceedings, World Congress of Sociology, Toronto, August 1974 (to be published in 1975).

it is an advocacy book. The authors present a premise: that "global corporations" have with little fanfare, acquired great power, creating a global organization for administering the planet, in a manner contrary to the interests of industrialized and developing countries alike. On the basis of the evidence presented in this book, chiefly a careful selection of partial excerpts from various speeches, this charge must be considered "unproven." On the basis of the evidence neglected by the authors, a portion of which this Commentary has drawn upon, this charge is even less credible. Many other reviewers have also reached similar conclusions.⁷⁷ Given their need to support their premise, however, it is not surprising that the authors lack an objective scholarly perspective and concentrate on giving only one side of the story.

The book is written from two viewpoints of importance, and it would be improved if these value judgments were made explicit from the beginning, especially in the *New Yorker* articles, which had the biggest impact on public opinion. First, the authors' conception of the proper role for management and stockholders of a corporation is an ideological one, at odds with the current and predominant view held in the United States. The concept that "Labor" must have control and a legitimate voice in the disposition of the capital with which they work, is not at present in the mainstream of American thinking, even in the labor movement. The suspicion of profits, the negation of the positive role which they play in the growth of economic systems, and the failure to acknowledge that the relative share of national income directed to return to owners of capital is declining, is all part of this view. The second value judgment is the authors' nationalism. Surprisingly, considering Barnett and Muller's ideological leanings (and Barnett's early works on the dangers of powerful national states),⁷⁸ the book supports the "national approach" to multinational corporations, rejecting the sentiment of many that problems which arise through international investment should be handled by international agencies.

For a book that purports to assess the impact of the "Global Shopping Center," the work is seriously flawed by its neglect of Europe as both a host and home area for multinationals, and for its consequent failure to put investment totals in perspective. This leads unsophisticated readers to suppose that the MNC's are mostly American firms investing primarily in the developing world. In reality, 74 percent of the sales of majority-owned U.S. affiliates abroad in 1972 were in industrial, i.e., developed areas.⁷⁹ Taking manufacturing alone (extractive industries by their very nature must be situated at the resource, and Barnett and Muller's study concentrates on manufactures), 86 percent of sales (1972), 85 percent of earnings (1973, provisional), and 83 percent of book value investment (1973, provisional) abroad by U.S. firms were in developed nations, predominantly Canada and Europe.⁸⁰ There are, to be sure, some objections to U.S. investment in Europe and Canada,⁸¹ but these are less dramatic for examination in the Barnett and Muller style. The fact remains, however, that multinationals do not have a large stake in the developing world, they do not earn a major share of their profits there, and top management does not spend a great deal of time on these countries.

Further, it is distressing that only passing references are made to the multinationals of other nations. The only international study which shows, on a comparable basis, the investments overseas of all the OECD countries was done in 1966. This study, with several weaknesses in data, nevertheless estimated that 39 percent of the total assets owned by foreign investors were owned by non-U.S. firms, and that in the developing nations 44 percent of the assets were of non-U.S. ownership.⁸² This proportion has no doubt grown since that date, because of currency revaluations and a rapid expansion of Japanese investment.

⁷⁷ See, for example, for reviews taking issue with Barnett and Muller's world management thesis: Senator Frank Church, "Profits of Doom," *Washington Post*, January 19, 1975; Anthony Sampson, "Global Reach," *New York Times Book Review*, January 20, 1975; Elliot Janeway, "Globaloney in a New Key," *Saturday Review*, February 8, 1975; Robert Heilbroner, "None of Your Business," *New York Review of Books*, March 20, 1975; David Fromkin, "Who's Managing the World?," *New Republic*, April 19, 1975.

⁷⁸ See *Roots of War and Intervention and Revolution*.

⁷⁹ *Survey of Current Business*, August 1974, Part II, Table 56, page 38.

⁸⁰ *Survey of Current Business*, August 1974, Part II, Table 10A, pages 18-19, Table 12, page 23, and Table 5G, page 38.

⁸¹ As, for example, Servan-Schreier, *The American Challenge*, and the "Gray Report" on foreign investment in Canada.

⁸² OECD Development Assistance Committee, (68) 14, Annex C, April 23, 1968, quoted in Rolfe, *The International Corporation*, XXII Congress, International Chamber of Commerce, May 31, 1968.

Fairness also requires the consideration of foreign investment in the United States. Although there is currently a "benchmark" study underway, the total book value of foreign investment in the United States by the end of 1973 was \$17.7 billion—productively employing American labor. The inclusion of the inflow of foreign investment into the United States in the discussions of the income and job effects of investment overseas would have probably affected the conclusions, had the authors considered this aspect.

The book suffers from a further drawback. In its discussion of the MNC and development, particularly the "cultural erosion," the book does not distinguish between the effects of trade and investment. Many of the desires which the authors find offensive (be they for Coca-Cola, refrigerators, or blue jeans) are transmitted by trade and media, as well as investment.

The book's inconsistencies have been pointed out by many, and this Commentary has discussed only a few of them. However, the conflict between the authors' desire to see investment both transfer technology and create jobs in developing countries and somehow keep jobs, technology, and labor leverage in the United States is basic. It is an inconsistency in approach which flaws the entire analysis.

The role of government is downplayed throughout. Any study of the dynamics of international investment-government relationships should acknowledge that governments are increasingly assertive, violating the basic principle of reciprocal, national, and most-favored-nation treatment of foreign investors.

Global Reach demonstrates a broader trend in the thinking of the third world, and to some extent, the American radical community. The role of the multinational is seen as an emotional issue which can be used to advantage in what actually is a struggle for wealth—and especially political power. This can be seen most vividly in the rhetoric of the "Group of 77" developing countries as they promulgate a "new international economic order." These countries are using the multinational in the United Nations, for example, as a symbol of the developed world's "oppression." They reject any international standards for government economic responsibility towards foreign investors in the Charter of Economic Rights and Duties of States, yet seek to enforce international standards on MNC's (in a U.N. "Code of Conduct" or in the "restrictive" business practices area for example) and duties on the developed countries (as the "duty" to contribute 1 percent of GNP as aid, the "duty" of states to boycott South Africa and Rhodesia or the "duty" of industrial states to give developing nations trade preferences, even if the latter engage in what the U.S. Department of Justice calls "conspiracies in restraint of trade," namely commodity cartels).

The multinational is being used as a convenient strawman to represent "power" in the American system in such a way that many non-MNC issues, such as the quality of growth, income concentration, political corruption, the food crisis, unemployment, decline in the value of the dollar, to name just a few, are explicitly or implicitly tied to the MNC. These issues cannot reasonably be casually related to the MNC, and that they are tacked on to the "global corporation" in *Global Reach* demonstrates its broader purpose.

[Whereupon at 12:45 p.m. the subcommittee recessed subject to the call of the chair.]



POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

Northrop Corp.

MONDAY, JUNE 9, 1975

UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice at 10:05 a.m., in room 4221, Dirksen Senate Office Building, Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Symington, Clark, Case, and Percy.
Senator CHURCH. The meeting will, please come to order.

OPENING STATEMENT OF SENATOR CHURCH

The message contained in the 530 pages of documents* pertaining to the Northrop Corp. released by the subcommittee on Friday can be summed up in a single phrase. Frank DeFrancis, one of Northrop's consultants said it: "I don't know a damn thing about an airplane except the nose and the tail." But DeFrancis knew the "right" people and that is really what the Northrop case is all about: How to get the "right people" in foreign governments to make the "right" decisions about which airplane to purchase. The propriety with which this was to be done seems not to matter.

The documents lay out in excruciating detail a sordid tale of bribery, and of shadowy figures operating behind the scenes whose activities are vaguely alluded to but never explicitly stated; in short, a cast of characters out of a novel of international intrigue.

However, here we are not dealing with fiction but with real life; deliberate deception, for example, of our own officials in the Department of Defense as to the full scope of services performed by Northrop's agent in Saudi Arabia, Mr. Khashoggi. The documents show payments made by Northrop to agents and business partners in a way that would permit the company to disclaim knowledge or responsibility for the uses to which it was put. They relate the formation of foreign corporations funded by Northrop designed to insulate from public view individuals working "behind the scenes" for Northrop but who did not wish to be known to be associated with the company. We are shown military officers of the highest rank and members of parliament of foreign governments on the Northrop payroll as "consultants" under arrangements which permitted them to keep their Northrop connection concealed.

* See appendix, p. 398.

We are told that as a result of the activities of one such consultant, Northrop has had an unusual visibility into the highest councils of NATO, the Common Market community, and the many officials and unofficial discussions between the highest officials in Europe as they affect the sale of Northrop aircraft.

A way of life, a necessary evil, is the phrase used again and again by Northrop executives to describe this use of secret agents to promote the sales of arms to foreign governments. But that is precisely the issue. Is this pattern of behavior an acceptable way of life?

As the Wall Street Journal put it: "At the very least, the head office ought to know what is going on in its foreign branches. The most immoral position of all is to perform, and we don't want to know how." Well, that is precisely the situation we have in this case: Northrop did not want to know.

But more than corporate morality is at issue. There are fundamental questions of public policy. Is it conceivable that our own Defense and State Departments were unaware of these practices in promoting foreign military sales?

Under our foreign military sales program, the Pentagon contracts directly with the United States weapons manufacturer and is then reimbursed by the foreign government purchasing the equipment. Defense Department officials must approve all of the manufacturer's expenses, including agent commission fees, which are then treated as being tax deductible. Only recently has the Department seen fit to question any of those proposed fees, and then only to call them to the attention of the foreign governments involved.

In my view, this is not enough. Major reforms must be made in our military sales program. It is a very questionable practice to base a commission on the size of the sale secured. This means the higher the contract the higher the agent's fee and the greater the tendency to inflate the contract beyond legitimate defense needs. Some governments, Iran and Israel, for example, have recognized this fact and have barred agents fees on all arms purchases.

More fundamentally, our own Defense and State Department officials must begin to recognize that weapons are not just another export commodity. Arms sales are supposedly related to the legitimate defense needs of friendly governments. So there is an element of trust involved, a trust which on the basis of the record before us, has been abundantly abused.

The competition is out of control. We and the Europeans are in an unprincipled race to arm to the teeth the newly rich nations of the Persian Gulf. It is obvious that the United States alone cannot reform the methods now being employed. But if the NATO alliance is not to be ruptured by greed run amok, the United States should press for fundamental reforms in Western military sales practices.

If we do not, we will end up corrupting ourselves and those who deal with us. Instead of meeting legitimate defense requirements, we will find that we have sown the seeds of new wars. At present, we are on a treadmill with no end in sight. It is time for us and our allies to stop and consider what it is that we are doing and to what end.

OPENING REMARKS BY SENATOR CLIFFORD P. CASE

The Subcommittee on Multinational Corporations this morning is opening a new phase of its distasteful task of examining payments made outside the United States by American-owned corporations to individuals who could provide information or bring influence to bear in favor of these corporations. It is important to recognize that not every payment summarized in the documentation we are releasing was an illegitimate one, under the existing laws of this country, or the laws of a foreign state. In fact, not every payment on which we have material was so morally murky that we would wish to prevent it under future legislation coming from this Subcommittee.

What we are in fact examining this morning is an incomplete grab-bag of very different foreign operatives of the Northrop Corporation. It is all too clear that some of the foreign recipients of the money—and, indeed, some of the Americans—operate in a kind of business underworld. Some were politicians on the take, generals for hire, “agents” of sordid influence, “consultants” in corruption. Other relationships, one would hope, were perfectly respectable and businesslike.

It is the difficult task of this Subcommittee, in preparing the legislation for which our country's need is so painfully obvious, to distinguish between legitimate payments for legitimate services, and other payment for other kinds of services.

Senator CHURCH. Our first witness this morning is Mr. Richard W. Millar, chairman, executive committee of the Northrop Corporation, and his attorney, Mr. Willens. I would ask if you both would stand and take the oath.

Do you both swear that all of the testimony that you will give in these proceedings will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WILLENS. I do.

Mr. MILLAR. I do.

TESTIMONY OF RICHARD W. MILLAR, CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE NORTHROP BOARD OF DIRECTORS, ACCOMPANIED BY HOWARD P. WILLENS, ATTORNEY

Senator CHURCH. Mr. Millar, I understand that you have a statement you would like to make at this time.

Mr. MILLAR. Yes, Mr. Chairman, I would like to make a statement. As you said, my name is Richard W. Millar. I am chairman of the executive committee of the board of directors of the Northrop Corporation. I have served on Northrop's board for nearly 30 years.

I appear before you here today on behalf of the executive committee of the board in order to assist you to the extent that I can in your inquiries into the complexities of doing business internationally.

I am accompanied by Howard P. Willens of the law firm of Wilmer, Cutler & Pickering, which has been assisting the committee in conducting its investigation of some of the matters to be discussed here today.

NORTHROP IS NOT A MULTINATIONAL CORPORATION

It is appropriate to point out, I believe, that Northrop is not a multinational corporation in the sense in which that term is generally used. We have no plants or manufacturing facilities abroad. The vast majority of our international business is derived from the export from the United States of goods designed and manufactured here, or of services provided by Americans and others working under contract abroad.

NORTHROP'S SUCCESS

Northrop's entry into the international marketplace is a relatively recent development over the last 15 years or so. Our success in this area is due in great part to Northrop's policy of developing proprietary products that are particularly designed for the export market. We have matched this with scrupulous attention, in this country and among our overseas customers, to meeting all of our contracted commitments on performance, schedule, and cost.

I am sure I do not need to point out, to you gentlemen especially, that such a record of business reliability is rare, if not unique, in the defense industry. That rarity is unfortunate. But it is true. Our consistency in meeting our commitments has brought credit to this country, and has helped further the foreign policy interests of the United States.

It is in this context that the executive committee of the board of directors has considered the various aspects of the company's international business which I intend to report to you today.

BACKGROUND OF POLITICAL CONTRIBUTIONS

It may be useful to trace quickly the background which led us to our present position.

In late March of 1974, the board of directors of Northrop was first informed that senior management had used corporate funds to make contributions to the 1972 Nixon campaign. The independent outside directors of the company, who traditionally constitute a majority of the board, assumed responsibility for an intensive investigation into a variety of problems growing out of those contributions.

As part of the effort, the board retained two major auditing firms to investigate the facts. The principal objective was to determine the full extent of improper corporate political contributions in the United States. Since the source of the identified contributions was a foreign consultant employed by Northrop, a secondary objective was to find out whether any other consultants or agents had been conduits for illegal domestic political contributions or raised other questions which warranted the directors' attention.

SPECIAL AUDIT REPORT

Northrop received the report of the special audit investigating team in November 1974. The auditors reported that over a 13-year period, starting in 1961, one of Northrop's foreign consultants, a William Savy, secretly returned approximately \$476,000 of corporate funds to company officials, most of which was used to make political contributions.

The auditors found no evidence of the return of any other corporate funds for improper purposes by any other foreign agent or consultant. However, in the course of their investigation the auditors identified a number of questions involving certain of Northrop's consultants and agents, and referred these to us for possible further inquiry.

Since Northrop's agreements with agents and consultants had not customarily come before the board for approval, the entire subject was a new one for the board. The board promptly resolved to act upon the auditors' suggestion and conduct a further investigation into the matters relating to consultants and agents about whom the auditors raised questions. This decision reflected the board's judgment that the auditors had performed a valuable service for the company in identifying problems requiring further attention.

THE EXECUTIVE COMMITTEE

The responsibility for the investigation resides in the executive committee of Northrop's board. It operates through five independent outside directors—three newly appointed after court approval. The final report of the completed investigation is due on July 20, 1975, and will be filed with all appropriate agencies of the U.S. Government and this subcommittee at that time.

The directors authorized an interim report of their investigation to be published last week in anticipation of my testimony this morning. The directors believed release of this interim report was especially appropriate in light of the decision of the Senate subcommittee, over Northrop's objection, to publicize the details of the auditors' initial work before the executive committee could file its final report on July 20, setting forth the results of its investigation.

The facts developed by our investigation and covered in this report were initiated by all of the independent outside directors on their own. The interim report which we have released summarizes the results of our inquiry to date. I cannot emphasize too strongly that it is an interim report. Many matters are still under investigation.

However, this interim report deals with the most significant elements of our investigation. While much work remains to be done before our completion date of July 20, 1975, we believe that the major problems have now been identified.

Let me touch on some of the major elements of our interim report.

SPECULATION

As the subcommittee knows, there has been widespread published speculation regarding the questions raised by the auditors concerning Northrop's international business activities. Most of that speculation has been erroneous. I hope that our interim report has helped put to rest some of that speculation. We hope this subcommittee shares our view that facts—not surmise and speculation—are required to put these problems into a proper and reasoned perspective.

Our interim report shows the following: Contrary to certain reports, Northrop has never maintained a \$30 million slush fund. We have never had evidence that any foreign consultants, other than Mr. Savy, returned any money to the United States for political contributions or other unauthorized purposes. He returned approximately \$476,000.

Similarly, there is no evidence of substantial inaccuracies or inadequacies in Northrop's financial records. We are investigating relationships and transactions pursuant to which as much as \$30 million

may have been paid or committed. We have found that nearly all of these amounts were disbursed pursuant to agreements with consultants and commission agents that were duly entered in Northrop's records.

Finally, there is no substance to reports that we are studying a problem of \$30 million in unlawful or improper expenditures. The directors have identified serious issues concerning the corporate procedures whereby consultant/agent relationships are approved, and some instances of questionable business judgment as to the scope of such relationships. With three, and possibly four, exceptions, however, we have uncovered no evidence that unlawful payments to officials of foreign governments were made by Northrop directly or through intermediaries.

Since I know that these payments are of particular interest to the subcommittee, I will summarize the relevant facts, which are set forth in more detail in the interim report.

NORTHROP'S PAYMENTS TO TRIAD

Two payments totalling \$450,000 were made by Northrop to Triad Financial Establishment, Northrop's agent in Saudi Arabia. Triad is a fairly large and well-known organization which is controlled by Adnan Khashoggi. Triad has represented numerous U.S. contractors in Saudi Arabia, including Lockheed, Chrysler, and Raytheon, as well as several foreign companies. Triad has performed substantial and legitimate services for Northrop since 1970 in connection with the sale of aircraft and related training and maintenance activities.

Our investigation has disclosed that during 1971, Mr. Khashoggi made a request to Northrop officials for \$250,000 in addition to the commission fees that were otherwise due him. According to Mr. Khashoggi, the money had been requested by a Saudi general. Northrop officials were both disturbed and skeptical about this demand. They made an effort to determine whether such payment was necessary. Northrop at the time had substantial contracts with Saudi Arabia, and was seeking additional business in the country. Northrop personnel knew that the general involved had created difficulties for Northrop's sales effort in the past, and they believed that he might do so in the future.

Finally, in March 1972, the Northrop officials transferred \$250,000 to the agent. Although Mr. Khashoggi has indicated that the proceeds were delivered to the general, no Northrop official or employee has any direct knowledge that this actually was done.

A similar problem arose in 1972. Mr. Khashoggi again approached Northrop personnel. He claimed that a payment of \$150,000 would be required for a second Saudi general. Northrop personnel initially resisted this new demand. It was reported, however, that the general had reacted to Northrop's sales effort in a hostile fashion, and Mr. Khashoggi advised that because of Northrop's resistance the general increased his demand to \$200,000.

Finally, in August of 1973, Northrop transferred \$200,000 to the agent. As in the first case, no Northrop official or employee has any direct knowledge whether this \$200,000 actually was given to any official of the Saudi Government.

NORTHROP'S ASSURANCES FROM MR. KHASHOGGI

Northrop has recently sought and received written assurances from Mr. Khashoggi that no payments will be made by Triad on Northrop's behalf, with or without Northrop's knowledge, in violation of applicable law. In addition, the directors have taken steps to assure that the payment of \$450,000 is properly treated as nonallowable for purposes of Federal income tax and Government contract accounting.

We have communicated these facts to the Saudi Government, and to our Defense and State Departments. We deeply regret this unfortunate episode. We extend our public apologies to the Government of Saudi Arabia for any embarrassment caused by this matter. Northrop is proud of its successful performance in Saudi Arabia and values the business opportunities and relationships which it has enjoyed in that country. We hope that these public disclosures will not disrupt programs there which are of great importance to the Governments of Saudi Arabia and the United States, and to Northrop.

The directors do not condone the actions of Northrop personnel in making these payments to the agent for the purpose represented, whether or not the money was ultimately received by Saudi officials.

Although the demands as reported by the agent placed our people in a very difficult situation, we believe that they should have been rejected whatever the consequences. We are taking all necessary steps to assure that no payment for such purposes will occur in the future.

TWO OTHER UNLAWFUL PAYMENTS

Only two other unlawful payments—or possible unlawful payments—have been discovered during our investigation. Our inquiry, although not yet complete, tends to confirm that an Iranian tax official received a cash payment of \$4,400 of Northrop funds in settlement of an outstanding tax dispute in 1972.

In addition, our investigation is continuing into an allegation that a payment of \$15,000 was made to an Indonesian agent during 1972, in order for the agent to make a gift to an Indonesian politician. This, too, has not yet been confirmed.

In many other cases, payment identified in the auditors report as of special interest were found by us to have been unusual, but not evidencing wrongdoing. In many of these instances, the auditors' principal concerns were fairly isolated unusual contracting or disbursing procedures, or instances in which company documentation was inadequate to explain the original purpose of an arrangement or to demonstrate the continued value of an agent or consultant.

NORTHROP'S CONTRACT WITH THE ECONOMIC AND
DEVELOPMENT CORPORATION

For example, the executive committee has directed considerable attention to Northrop's contract with the Economic and Development Corporation, EDC, a commission agent for certain aircraft sales. The basic concern of the auditors regarding EDC was the history of the

agreement, and the absence of documents explaining the value that the contract placed on EDC's activities.

During the course of our investigation, the executive committee conducted a lengthy interview of EDC's principals. They described to the committee, the types of marketing activities conducted on Northrop's behalf in a number of countries.

In addition, the executive committee received formal written assurances that EDC has not returned any money to Northrop, paid out any money at Northrop's direction for political contributions or otherwise, or made any payments to government officials on Northrop's behalf. Our investigation has uncovered no reason to doubt these assurances or to suggest that EDC has not conducted its activities on Northrop's behalf in accordance with applicable law.

Contrary to speculation in the press during the past week, the investigation has disclosed no evidence that any government officials participated as shareholders or otherwise in the activities of EDC.

We recognize that the refusal of EDC's principals and some of Northrop's other independent representatives abroad to identify all their business associates or to provide details as to their efforts can give rise to an unfavorable inference.

As directors of Northrop, we are concerned with this lack of information. In assessing the situation from the standpoint of Northrop shareholders, however, we cannot lightly dismiss the legitimate right of these independent businessmen to preserve the confidentiality of their contacts and sources of information. Nevertheless, we have directed management to conduct negotiations with EDC with the objective of improving communications between Northrop and EDC.

THE CONSTRUCTION VENTURE

Our interim report also summarized the results of an investigation regarding a consortium venture involving Siemens, General Telephone, Nippon Electric, and a Northrop subsidiary. The consortium has spent the past 5 years constructing a massive telecommunications system for the Government of Iran valued in excess of \$200 million. Three questions relating to this project were identified by the auditors for additional inquiry. Although the examination is not yet complete, the executive committee has not found any evidence of wrongdoing under U.S. or Iranian law.

Two of the questions the auditors identified involved consortium agents. Our investigation, although not complete indicates that both agents were, in fact, responsible business entities. They operated openly in Iran on behalf of their clients and performed substantial services of great value to the consortium. The third question concerned payments made to an account designated by one of the consortium members, Siemens.

Siemens has been engaged in business in Iran for approximately 100 years. At Siemens' suggestion, the consortium members placed approximately \$2 million, a percentage of the sales contract, in a Swiss bank account in order to defer the expenses incurred by Siemens to obtain needed information, advice, and assistance for the consortium.

Siemens' representatives have provided written assurances that no portion of this sum was returned to Northrop or anyone else in the

United States. But, on the grounds that this information is proprietary, they have refused to disclose to us the identity of any of the consultants or agents employed by them on behalf of the consortium or any other use of the money. Our investigation has uncovered no evidence that any of this money was used by Siemens for any improper purpose.

In the course of our investigation, the executive committee has acquired an appreciation of the complexities inherent in the effort to sell high technology products at a competitive price to foreign governments in a manner consistent with applicable law and business practice.

THE FINAL REPORT

In its final report, the executive committee will consider what internal actions and reforms are required by the factual findings of our investigation. I can assure you that the executive committee will be reexamining Northrop's past practices, in light of the relevant facts, changing policies in the foreign markets involved, and any new requirements established by the responsible executive branch agencies or by Congress.

Of the many difficult questions which have confronted us, the ones most relevant to this subcommittee's inquiry involve the use of consultants and commission agents to assist in sales to foreign governments.

First: We have learned that an effective foreign sales program in certain countries requires the expertise and assistance of local representatives. It would be both ineffective and economically wasteful for us to establish staff offices in each potential customer country.

However, it remains important for someone in those countries, acting on our behalf, to promote the company's products among potential customers and to understand the social, economic, political, and traditional patterns of the country. For those purposes, the desirability—and perhaps the necessity—of engaging local agents and consultants in some foreign environments has long been recognized by businessmen, as well as by the U.S. Departments of Commerce, State, and Defense.

Second: Agents and consultants render a wide range of important and legitimate services. This was noted by the subcommittee last week when it released Northrop's documents. Crucial to an agent or consultant's success is his ability to interpret a government's requirements and circumstances to foreign businessmen.

Many agents and consultants maintain a substantial professional and technical staff. They assist in identifying promising areas for sales, preparing proposals, making technical presentations, reporting on the decisionmaking process within the bureaucracy, participating in negotiations and meetings and assisting in implementing successful programs.

Third: Arrangements for compensating agents reflect very dramatically the forces of competition and the risks inherent in the business. There is vigorous competition among business concerns—United States and foreign—for the services of the most effective agents in a particular area. It often appears that in those countries in which the need for an agent is greatest, the number of reportedly effective agents is few.

This is reflected in the dramatic compensation those few are able to demand. Agents customarily earn a percentage commission based upon the final contract price. Northrop's fees for commission agents typically are in the 4- to 8-percent range. Fees for military sales under the FMS programs, where the Department of Defense acts as an intermediary, generally are in the 4- to 5-percent level, and must be disclosed and approved as reasonable under existing regulations. Many European companies in direct competition with us frequently pay commission fees of 15 to 20 percent. Our percentages are not high, but the actual commissions may be substantial, since the sales may easily reach hundreds of millions of dollars. On the other hand, if no sale is consummated, no commission is paid, notwithstanding years of effort.

Fourth: The payment of such commissions involves some obvious risks to the company which employs them. Most agents are independent and substantial businessmen. Most are careful to avoid even the appearance of impropriety. But it is unreasonable to expect them to open their books to us.

This is precisely why companies seeking business in certain countries ask for guidance and recommendations from our embassies and from the Department of Commerce before choosing an agent or representative. In practice, an American corporation does not have the ability to monitor all the actions of the agents with whom it must deal, and cannot be held responsible for activities or practices which the corporation does not know about, and does not tacitly or explicitly approve.

Fifth: The use of commission agents on sales to governments is the subject of different, and constantly changing, governmental rules in this country and abroad. In countries such as Iran, for example, where the Government has taken the necessary steps to eliminate the services of agents from the buyer-seller relationship in many government programs, Northrop has acted promptly to terminate such agency agreements. In circumstances where sales agents are not a necessary adjunct to the company's own marketing organization, they are not used.

THE U.S. POSITION CONCERNING COMMISSION AGENTS

These hearings provide an excellent opportunity for this subcommittee to elicit the best possible thinking regarding an appropriate U.S. position with respect to the use by American corporations of commission agents abroad. We are aware that numerous executive branch agencies have views on this matter, including the Department of Defense, the Department of State, the Department of Commerce, and the Securities and Exchange Commission.

It might be most advantageous for everyone concerned if this subcommittee would stimulate a thoughtful reexamination of the problem by these agencies looking toward a unified executive branch position, new regulations, and perhaps new legislation.

If this were accomplished, Northrop and other companies with substantial interests in making sales to foreign governments would have clear policy guidelines as a basis for their future conduct abroad.

CONCLUSION

In conclusion, I wish to add a few remarks about the effect that the events of the past year have had on Northrop.

Clearly, they would have been a traumatic experience for any business firm. They have been especially so for Northrop. For more than 15 years, this company has earned a well-deserved reputation here and around the world as one of this country's most reliable aerospace contractors. Its successful growth during this period has been built on a long record of meeting our contractual commitments—doing what we say we will do, delivering high quality products, and giving the promised performance on the promised schedule and at the promised price. This record is one of which our management team, employees, and shareholders are justly proud.

These unfortunate events which I have described here today have scarred that reputation and damaged that pride. I hope and believe that we can benefit, nonetheless, from this painful experience and take whatever steps are necessary in our corporation and in our country to assure that the mistakes made in the past will not be repeated.

On behalf of my fellow directors and the management of Northrop, I pledge you our determination to move forward in a fashion that will benefit the Nation, our customers, our shareholders, and our employees.

Thank you.

Senator CHURCH. Thank you, Mr. Millar, for your statement.

THE PURPOSE OF THE HEARINGS

I know that these disclosures have been painful and that it is not easy for you to come to this committee and make the kind of statement that you have made this morning. But you quickly pointed out, if I may use your words, "It might be most advantageous for everyone concerned if this subcommittee could stimulate a thoughtful reexamination of the problem with these agencies looking toward a unified executive branch position on new regulations and perhaps new legislation."

That is the purpose of these hearings and we hope that they will serve to furnish guidelines in the future that will be beneficial to companies like Northrop, and we hope, too, that we might form a basis for reordering the present competition. They may have some influence on European competition as well.

Now, before we go to the questioning, Senator Case has asked that I recognize him for the purpose of making a statement. He has some problems that may prevent him from remaining for the whole morning.

For that reason I turn to Senator Case.

SENATOR CASE'S STATEMENT

Senator CASE. Thank you, Mr. Chairman. I share with the chairman and the rest of the committee the hopes he has expressed about the purpose and possible accomplishments of the work of this subcommittee in this matter. Obviously, this is a distasteful business, and

yet it is a good idea to get it out in the open. If I were inclined in any way to be malicious in temperament, I might suggest that perhaps this examination of business immorality is turning out to show similarities to the behavior which many businessmen in a knee-jerking reaction attribute to all politicians. It is not a bad idea to have this equalization, even though neither such conduct on the part of neither politicians nor business community can be approved or glossed over. I hope that we will be able to be helpful in bringing out the facts on the areas in which companies like yours, sir, have to work and have worked for many years.

I share the chairman's stated hope that our work may stimulate considerable activity on the part of other countries where many of your competitors are based. There are laws, as I understand it, in France and Germany on these matters. Whether these laws have also been enforced or whether under pressures similar to those which you have advanced your competition also cannot abide by them is still an open question.

In any event, it cannot help but be useful, I think, to open the subject and to make clear what has been done. My guess is that it is going to be useful as far as saving money to American stockholders as well as preventing things that are inherently immoral.

I thank the chairman for letting me make this brief statement. I will be back as soon as I finish with the Transportation Subcommittee which has claimed my time at the present time, and I am sure that you will not be finished before I do.

Thank you.

Senator CHURCH. Senator Percy.

Senator PERCY. Thank you, Mr. Chairman. I regretfully have the same problems that Senator Case has. We have oversight hearings on our drug abuse problems under Senator Jackson. I am ranking on that subcommittee so I will have to divide my time.

VIEWS OF SENATOR PERCY

I would like to indicate in the opening phase of this hearing that last Wednesday, I addressed the Council of Americas, which I think is several hundred multinational corporations, over at the State Department. I felt it best to just say to many former heads of multinational corporations that after the disclosures that we have had that I think it is probably best for us to work toward complete public disclosure of all contributions made by U.S. multinational corporations, and I urge similar disclosure of all dummy corporations created by multinationals for special financial or tax purposes.

I believe that today's hearing will justify that initiative, unhappily. Today's revelation of Northrop Corp.'s sales structure will reveal special Swiss and Bermuda corporations with unknown stockholders, uncontrolled sale agents about whom the company apparently did not wish to be informed, at least some officials of the corporation did not wish to be fully informed, and payoffs to influential foreign government officials and private citizens.

It can be argued that Northrop is a special case, but all evidence leads to the belief that they were involved in what would be called accepted practice in the trade. The documents in the subcommittee's posses-

sion reveal that Northrop copied its sales promotion strategy from others, that after all it has only been involved in this overseas sales activity, as distinguished witnesses indicated, for a period of about 15 years. It patterned its experience after others who had been in it longer, and that many of the Northrop agents handled the accounts of other multinational firms. In one case that will be discussed today, Northrop is involved in a consortium with a non-American multinational corporation which also willingly participated in what only can be called corrupt practice.

Northrop is a case study, but I am afraid not an isolated case, and should not be looked upon as such.

The president of Gulf Oil, who appeared before the subcommittee last month, appealed for legislation banning political contributions by American multinationals overseas. Mr. Chairman, I reported this to the head of some 200 multinational corporations and said that we as members of this committee and you as chairman would welcome their response to this proposed legislation. Would this not make it unmistakably clear that they could not be shaken down, they could not have the pressure put on them. It would be a corrupt and criminal offense in this country, even if abroad they say, well we have such laws, but we do not observe them or we have them on the books, but we do not enforce them. This would protect our corporations.

Perhaps the officials of Northrop will want to advance similar legislation taking into account their activities that they and their board have now revealed, voluntarily revealed to the public.

But nobody can legislate morality, and even if we could, we could not enforce it in other sovereign nations. In many cases such as Gulf Oil and in some cases to be developed here today, payoffs were not offered by the corporations but were extorted by others with whom they had to do business. I am convinced that creative minds in the name of greed can concoct schemes faster than we can get legislation against them, and I am also convinced having done business abroad in some 80 countries over a period of a quarter of a century, that the American business community did not invent this method of doing business, that this was invented long before we started doing major overseas business, that this is looked upon as a way of life in many countries, and that they grossly underpay their civil servants expecting them and anticipating that they will have compensation made up to them.

These are the facts of life, but we have to somehow deal with it. We realize right now, because of the morality and freedom of our own society, and the ability of a congressional oversight committee to bring these matters to light, I think we have to recognize that, first, we have a strong enough society and economy to sustain this, but also hopefully, just as in the whole field of environment, we are leading the way and hoping the rest of the world will follow.

I would hope also that as we rely on public exposure, a free press and public indignation to control these excesses, rather than just a maze of regulations and governmental control. I would hope also that in advocating legislation on full disclosure by American corporations, that other countries would follow our lead on this issue because we well recognize it is going to be exceedingly difficult for American enterprise to do business abroad if they are the only ones observing

what should be considered to be the proper code of standard and ethics. If no one else is following that, it puts us in an extraordinarily difficult position.

I commend the chairman and members of the committee for these hearings, which are painful to all of us, but absolutely essential and necessary in our judgment.

Senator CHURCH. Thank you very much.

PRINCIPLES OF THE UNITED STATES

I might say to you that late last week a departing foreign ambassador, whom I have known personally, came to see me and made a remark that one of the unique features of the United States is that it is a society that keeps striving to live up to its own principles. He says this is the great strength of the United States, and it is something that cannot be said about most nations. I agree with him, and I think that in these hearings we are striving to find ways that will enable our own businesses to live up to our principles and to their principles. I hope we can succeed.

Is there any other preliminary statement that any other member of the committee would like to make?

Senator Symington.

Senator SYMINGTON. Thank you. I would rather listen to some questions. I have to handle a bill on the floor on multiconstruction at 11:30, and I would like to listen to some questions. If the Chair would be good enough to give me a few minutes before 11:30, I would appreciate it.

Senator CHURCH. I certainly will accede to that.

Senator Clark.

Senator CLARK. No questions.

Senator CHURCH. We will proceed then with the questions.

IMPROPER PAYMENTS

I would like to begin by calling your attention to page 6 of your statement where you say at the beginning of the second paragraph, "there is no substance to reports that we are studying a problem of \$30 million in unlawful or improper expenditures."

Down at the bottom of the paragraph where you say:

With three and possibly four exceptions, we have uncovered no evidence that unlawful payments to officials of foreign governments were made by Northrop directly or through intermediaries.

First of all, I want to go to those exceptions which Northrop Corp. itself acknowledges to have been improper.

NORTHROP'S PAYMENTS TO MR. KHASHOGGI

Two of the four exceptions you list relate to \$450,000 which was paid by Northrop to its agent in Saudi Arabia, the Triad Financial Establishment, which is controlled by Mr. Khashoggi.

Now, if I understand your testimony correctly, Mr. Khashoggi represented that these payments were necessary in order to neutralize certain opposition to Northrop that had developed on the part of two highly placed Saudi generals.

Is that correct?

Mr. MILLAR. That is my understanding.

Senator CHURCH. And the first payment made to Mr. Khashoggi was in the amount of \$250,000.

I am looking at page 7 of your testimony where you say, beginning with the second paragraph:

Our investigation has disclosed that during 1971 Mr. Khashoggi made a request to Northrop officials for \$250,000. In addition to the commission fees that were otherwise due him, according to Mr. Khashoggi, the money had been requested by a Saudi general. Northrop officials were both disturbed and skeptical about this demand. They made an effort to determine whether such a payment was necessary.

Now, calling your attention to that last sentence, they made an effort to determine whether such a payment was necessary. May I correctly construct that sentence when I add the following words: Necessary in order for Northrop to make its sales? Necessary in the sense that unless the money was paid, Northrop might fail to make the sales it hoped.

Was that the reason the money was paid?

Mr. MILLAR. Well, I cannot tell you precisely what was in the minds of people that made the decision but I think you must assume that they felt that the ongoing program and prospective sales were imperiled if the payment was not made.

BLACKMAIL

Senator CHURCH. So this really was a form of blackmail, was it not?

Mr. MILLAR. Well, I would not argue with the——

Senator CHURCH. You would not argue with that, would you?

Mr. MILLAR. No, sir.

Senator CHURCH. And the same can be said of the second payment in 1972 of \$150,000 which became \$200,000?

Mr. MILLAR. Yes.

Senator CHURCH. Could it not?

Mr. MILLAR. Yes.

MR. KHASHOGGI'S ASSURANCES

Senator CHURCH. Now, turning your attention to page 8 of your statement, again the second paragraph, where you testified Northrop has recently sought and received written assurances from Mr. Khashoggi that no payments will be made by Triad on Northrop's behalf with or without Northrop's knowledge in violation of applicable law.

Do you mean by that statement that Northrop has now informed Mr. Khashoggi that it would not do this kind of thing again?

Mr. MILLAR. That is the effect and it is written in the contract.

Senator CHURCH. Now, you have testified that Northrop does not have certain knowledge that the money supplied to Mr. Khashoggi was in fact passed to the two Saudi generals.

Mr. MILLAR. That is correct.

Senator CHURCH. However, you still retain Mr. Khashoggi as an agent in Saudi Arabia, do you not?

Mr. MILLAR. Yes, up to this point.

Senator CHURCH. So that you actually have no grounds for suspecting Mr. Khashoggi pocketed the money, do you?

You do not really believe that he pocketed the money, do you?

PAYMENTS TO SAUDI GENERALS

Mr. MILLAR. I would not want to prejudge it but we do not have any evidence that he paid the money. Conversely, we do not know that these generals did not get the money.

Senator CHURCH. Have you not asked him?

Mr. MILLAR. Yes. Yes, indeed.

Senator CHURCH. Has he told you that he passed the money to the Saudi generals?

Mr. MILLAR. He did.

Senator CHURCH. Do you have any reason to believe that he did not pass the money to the Saudi generals?

Mr. MILLAR. We just have no evidence that the money was passed.

Senator CHURCH. You have his testimony. That is evidence is it not?

Mr. MILLAR. Well, to that extent, yes.

Senator CHURCH. And you have no contrary evidence?

Mr. MILLAR. No.

Senator CHURCH. And you still retain him as an agent?

Mr. MILLAR. Yes. As I said, of course, obviously the situation is open for review and we want to, after careful consultation, among other things, do what the Saudi Government wants to do under these circumstances.

PAYMENT TO IRANIAN TAX OFFICIAL

Senator CHURCH. Now, turning to page 9 of your testimony, again to the second paragraph. You state,

Our inquiry, although not yet complete, tends to confirm that an Iranian tax official received a cash payment of \$4,400 of Northrop funds in settlement of an outstanding tax dispute in 1972.

Can you give the committee more particulars with respect to that statement? What kind of a tax dispute and what was the reason that Northrop decided to pay this particular Iranian tax official \$4,400?

Mr. MILLAR. I think you will find the answer, Senator on page 32 of the interim report.

Senator CHURCH. May I just turn to that page, please.

You are referring to item 10 on page 32, Mr. Millar?

Mr. WILLENS. Yes; the matter is briefly discussed at page 32 of the committee's interim report and I can elaborate essentially by saying that the tax matter in question was one of many minor matters that had been raised in the periodic examination of Page Communications returns by the local government tax authorities. It was brought to the attention of the responsible Page officials by their auditors that there was a need to make a minor cash payment to the tax assessor involved in order to settle the matter. After a consultation with knowledgeable people in the country it was decided that the company should make the payment involved. It was a decision made by company officials in light of all of the circumstances and it was not one that the directors are here to condone or approve.

Senator CHURCH. It was a bribe, was it not?

Mr. WILLENS. Senator, I do not know if you could call that a bribe or not.

Senator CHURCH. What could you call it? It was a payment to the Iranian Government, was it not?

Mr. WILLENS. There was a company payment to the Iranian Government.

Senator CHURCH. \$4,400 was not paid to the Iranian Government, it was paid to the tax official.

Mr. WILLENS. It is my, our understanding it was paid to the individual tax official presumably to secure his acceptance of the compromise tendered by the company.

Senator CHURCH. Is that not a bribe?

Mr. WILLENS. I think that is a bribe.

PAYMENTS TO INDONESIAN POLITICIAN

Senator CHURCH. Now going to the next paragraph, which begins: "In addition our investigation is continuing." I am back on page 9, Mr. Millar, the third paragraph of page 9.

In addition, our investigation is continuing into an allegation that a payment of \$15,000 was made to an Indonesian agent during 1972 in order for the agent to make a gift to an Indonesian politician. This, too, has not yet been confirmed.

Can you give the committee further details about that particular payment?

Mr. MILLAR. We still do not know precisely what happened. We have so far conflicting evidence. Suffice to say, there was no contract, no business done with Indonesia. We have gotten some conflicting evidence, testimony, replies, on how much and under what circumstances. This is still being pursued.

Mr. WILLENS. Our most recent information is that the source of this report that an improper payment may have been made now rejects that prior statement and so we have to pursue the investigation to see whether or not we can elicit facts as opposed to speculation as to whether or not a payment was made, and if so whether it was illegal under local law.

THE ERNST AND ERNST REPORT

Senator CHURCH. Is there any reference in the Ernst and Ernst report of this particular payment.

Mr. WILLENS. Yes; there is. It is one of the items discussed in the report of the auditors which served as basically the charter for the executive committee in conducting its own investigation.

Senator CHURCH. But there are no further facts in the Ernst and Ernst report on this matter beyond what you have testified to?

Mr. WILLENS. The auditors report that there was a speculation by an official that a payment might have been made to this agent for receipt by a politician. We have now pursued that matter in a preliminary way and it casts some doubt on whether in fact this was done. We will continue to investigate and deal with it in the final report.

Senator CHURCH. Rather than press you for details, which you apparently cannot supply today, I will request that when you complete your investigation of this particular matter that you provide the committee with a full disclosure of your findings.

Will you do that?

Mr. MILLAR. Yes.

THE ECONOMIC AND DEVELOPMENT CORP.

Senator CHURCH. Now turning to page 10 of your statement, Mr. Millar, and again the second paragraph. I am puzzled about the Economic Development Corp., which Northrop set up, because it is not clear from your testimony just what this corporation was for.

You say on page 10 of your statement:

During the course of our investigation the Economic Committee conducted a lengthy interview of EDC's principals. They described to the Committee the types of marketing activities conducted on Northrop's behalf in a number of countries. In addition, the Executive Committee received formal written assurances that EDC has not returned any money to Northrop, paid out any money at Northrop's direction for political contributions or made any payments to government officials on Northrop's behalf. Our investigation has uncovered no reason to doubt these assurances or to suggest that EDC has not conducted its activities on Northrop's behalf in accordance with applicable law.

Well, now, assuming that this particular corporation engaged in no unlawful activity, what was the purpose for setting up such a corporation in the first place?

Mr. MILLAR. Well, in the first place, Senator, I am not sure I understand or wholly agree with your statement that Northrop set this corporation up. The corporation was set up by the individuals with whom Northrop did business. That is my understanding.

Mr. LEVINSON. Was it not set up at Northrop's insistence through Mr. DeFrancis, through Mr. Jones? Was it not precisely modeled on the Lockheed precedents so that Northrop could market as effectively as Lockheed, adopting the Lockheed precedent? Was it not discussed between Mr. Jones and Mr. DeFrancis?

Mr. MILLAR. Mr. Jones would have to answer that question, but the exact genesis of it, to what extent Mr. DeFrancis was structural in setting that up, I just cannot tell you. But whether it was set up at that moment or that time or whether it was in existence, it is not an unusual type, apparently not an unusual type of organization to carry forward foreign business for American companies.

Senator CHURCH. Was this corporation functioning as a cover? That would be the term used in the intelligence community? Northrop, I understand, had committed 11½ percent of the company's receipts on all direct foreign sales of the F-5 worldwide to this corporation. The corporation was obviously undertaking to secure sales of the F-5 for Northrop.

Is that not true?

Mr. MILLAR. Yes.

Senator CHURCH. Right. Therefore, it was in a sense the instrument of Northrop, was it not?

Mr. MILLAR. No, I would not go that far; not according to my knowledge.

Senator CHURCH. Would you call it an agent of Northrop?

Mr. MILLAR. Yes, any such company operating to sell the company's products is an agent.

Senator CHURCH. Did it represent itself to be an agent of Northrop?

Mr. MILLAR. As far as I know they did. They were obviously working in behalf of Northrop for the sale of Northrop aircraft.

Senator CHURCH. So that it is your testimony that those dealing with this corporation knew it to be an agent of Northrop?

Mr. WILLENS. Senator, if I could interject.

Senator CHURCH. I would like to know—

Mr. WILLENS. Let me try to answer the question for you.

Senator CHURCH (continuing). How this corporation represented itself in its dealings to promote the sale of Northrop products?

Mr. WILLENS. The principals with whom the executive committee met set forth the way in which they functioned on behalf of Northrop and it involved personal meetings with government officials in Iran and other countries, where there were prospects for Northrop to sell its products. EDC principals did not have the technical knowledge about the Northrop products. The principal assignment through EDC was to bring Northrop's name and reputation to the attention of highly placed officials, to communicate the principles on which Northrop was developing a family of aircraft, high performance, low cost, easy to maintain aircraft, which these countries should consider in deciding among various other competitive products which to purchase. The document, which the subcommittee has issued, reflects it was designed to be supplemental to the formal sales and market programs of the corporation. It was designed to bring the name and the product and the philosophy to the attention of people who subsequently might be in position to contribute to the decisionmaking process.

THE PURPOSE OF EDC

Mr. LEVINSON. Is it not clear that the purpose of EDC was to provide a vehicle for promoting Northrop sales by people who did not want it known that they were acting on Northrop's behalf?

Let me read from page 23, one of the documents we released.

One of the underlying factors and conditions that was a prerequisite in the organization of the Economic and Development Corporation was that it remained a separate and independent organization. This principle provides a wide degree of flexibility in procuring the best people for the particular assignment at hand, and in many instances, enables the securing of persons who otherwise could not be directly involved for variant reasons with Northrop as such.

Now does that not say this in a nutshell?

Mr. WILLENS. I think that was one of the most important motivations in setting up this particular sales technique, Mr. Levinson, because it had been proven to be a useful vehicle for employing the local expertise and experience of a kind that Northrop felt would be advantageous.

I think we should point out, however, that when principals on behalf of EDC went forward to communicate about Northrop they might well have disclosed to the people with whom they were talking that they were indeed involved in an effort on behalf of Northrop.

We do not know, for example, that these principals refused to disclose in personal conversations that they were in fact engaged by Northrop through EDC for this purpose.

I will concede your basic point that the instrumentality was one in which you could involve independent businessmen and others who felt that in accord with their own customs and preferences it was best not to have any public affiliation with the company.

Senator CHURCH. Well, then, I think that that being so, it would not be improper to refer to EDC as a kind of cover.

Mr. WILLENS. Senator, yes, that may be completely fair unless you mean to suggest that it was a cover for improper payments.

Senator CHURCH. I am not suggesting that.

Mr. WILLENS. We have no evidence of that. I recognize the unfortunate inference, as Mr. Millar's testimony highlighted this morning, but we have no evidence of that kind of illegal or improper conduct.

Senator CHURCH. Nor am I making such an accusation. I am trying to determine why it was that Northrop set up a company to which it paid 1½ percent commission on its contracts worldwide for the F-5 aircraft, the purpose of which was to promote the sale of these aircraft. It is clear from what you have said that it was to operate in a way that would permit its agents to conceal, if they so chose, their identity as agents of Northrop.

Mr. WILLENS. That is essentially so and that is one of the basic questions that the executive committee and the board must now confront as to whether or not in the future they can use an agency of this kind to promote Northrop sales abroad.

Mr. LEVINSON. You have said you have no evidence——

Senator CHURCH. Excuse me.

Senator SYMINGTON. Mr. Millar, I have noticed that you have been on the board of Northrop for 30 years and now you are, chairman of the executive committee.

THE ROLE OF THE BOARD OF DIRECTORS

When Mr. Willens appeared before this committee in executive session, it seemed to me that he was doing his best to cut the board of directors and executive committee out of the problem and leave it entirely to the management.

Now, I have been head of a few companies in my time, and I hardly ever turned around without discussing any matter with the board, and it worries me that we have this sort of a departure of the board and the executive committee from normal practice. Apparently, in the Northrop case many of these things were not only not discussed with the board, they were not even discussed with the executive committee.

I know in the two major industries in private business in which I was involved, there was price fixing. In one case some of the officers in two of the great corporations in this country were caught and they were sent to jail and fined fairly heavily.

So, my first point is I would hope that there is no effort on the part of the board of directors, especially the executive committee, to disassociate themselves from any possible wrongdoing on the part of Northrop in the sale of foreign materials which benefited the balance-of-payments problem, that we have faced with increasingly serious apprehension for a long time.

In this case, there is another aspect to it.

There is not any law in the country that says if you pay an agent in Saudi Arabia money you could call it a bribe, or that you can call it blackmail, that these words are all sort of mixed up. Is a cigar a bribe? Is a box of cigars a bribe? I think there you get into a field of no, but is a freight car of cigars a bribe? There I think you might say

yes, that might be considered a bribe unless you were talking with a hell of a smoker.

So what I am wondering is not the problem really as much a problem of our own as it is a problem of yours? In other words do we think this is wrong? I do not want to prejudice any of this case, although I do object frankly to the efforts that I felt were being made by counsel to disassociate the board, and especially the executive committee, from the management, because that would not wash with a company that has had as good a record as Northrop has had, even though they apparently made a mistake here.

WHAT LEGISLATION IS NEEDED?

Do you not think we should pass laws, if you feel this is wrong? Do you not think that those laws would make us noncompetitive based on the testimony in other fields and other cases? Should we not pass laws that make this illegal, or else are we not automatically giving up an opportunity to get this business?

Mr. MILLAR. That is a very good question.

Senator SYMINGTON. I am not judging one way or the other. I am asking questions from a tricky theoretical standpoint.

Mr. MILLAR. Obviously a company like Northrop is in competition with not only other domestic companies but foreign companies. The French aircraft industry is very active. The British aircraft industry is very active abroad and badly in need of business. Their commission rates, according to the best information we have, are very much higher than anything that we would ever consider in this country, I think.

I must say that the matter of the means by which to get business abroad, as I have observed it from afar from other companies, have been told that it is the custom, the practice, that this is not an isolated case we are discussing here today.

Senator SYMINGTON. Well, I remember many years ago when Mayor LaGuardia, working for UNRA under Governor Lehman, asked me to look at a situation in a foreign country on distribution—in this case there was no profit of UNRA products. He found that I was going there and he asked me to look into it. They said over there that what they resented was that 20 percent was the normal take, even of the aid. It had gotten to be 60 percent and they thought that was unfair.

If this is wrong as we attempt to develop business, and an attempt to protect our balance of payments, should we not pass legislation that makes it clearly wrong to do it in a foreign country just as we have legislation in this country which makes it wrong to fix prices or to, you might say, pay unusual inducements, blackmail or bribes, or whatever the words are.

Would you comment on that?

Mr. MILLAR. Yes. Well, I think there is logic in what you say, considerable logic.

Senator SYMINGTON. Well, then two more questions and then I thank you, Mr. Chairman.

You say on page 2, "Our consistency in meeting our commitments has brought credit to this country, and has helped further the foreign interests of the United States." In the matters that we are discussing, regardless of whether some of the board and executive committee knew

about it—some say they did not know about it—at any time was this matter discussed with any member of the Government of the United States, the question of negotiating for this business?

Mr. MILLAR. I am sorry, Senator, I did not get the first part of your question.

Senator SYMINGTON. Well, I say you are saying here that this helps further foreign policy interests of the United States. We, in effect, come into the picture a bit later on, especially this committee.

Was there any discussion of additional payments beyond normal payments or special corporate rig setups, or anything of this character, with any members of the State Department or AID agencies or the various agencies that work for the ambassadors in the countries in question?

FMS SALES

Mr. MILLAR. Well, as you know, Senator, in the case of FMS sales the amount of commission has to be approved by our Government and they are spelled out. Northrop, I think, has always been meticulous in reporting what they proposed to do and FMS sales approvals received before the sale can be made.

Senator SYMINGTON. Then the Government did know about these extraordinarily high commissions; correct?

Mr. MILLAR. The Government knew I think you can say everything except the payment to, the presumed payment to the Saudi Generals.

Senator SYMINGTON. And why did the Government not know about that?

REPORTING THE \$450,000 PAYMENT

Mr. MILLAR. Well, it was reported as such.

Senator SYMINGTON. How was it reported?

Mr. MILLAR. I just think it was part of the cost. It was not charged, however, in as far as taxes are concerned—that payment was absorbed by the company as not being taxable. I mean they did not charge it as part of the contract cost.

Mr. WILLENS. With respect to the Government accounting side of the picture. Senator, the cost of the \$450,000 was initially tendered to the Government on the basis of which progress payments were made. Subsequently it was withdrawn because in fact it was not an official cost assigned to phase III of the Peace Hawk program in Saudi Arabia.

Senator SYMINGTON. Mr. Willens, I understand that. Just one more question, as long as you have interjected yourself into the dialogue.

You are a lawyer here in Washington. You know the corporate rules; you know the position of the executive committee.

OPERATIONS OF MANAGEMENT

Is this not a rather unusual case to the best of your knowledge, to have the management consistently operate without the approval of the executive committee?

Mr. WILLENS. As the Senator has indicated, in most corporations the executive committee and frequently the board play a larger role on matters that assume this kind of financial and other dimensions. However, the directors, I think, are the best equipped to speak to that

and it is based on their best recollection, including Mr. Millar, that these specific matters were not raised before. On the other hand, lets make it clear, Senator, that the directors are sharing in the responsibility for what has transpired here. The directors have undertaken to ascertain all these facts, to discuss them with management and take whatever steps seem best designed in the interest of the shareholders to comply with the law and applicable policies. So the directors are not here trying to do anything otherwise.

Senator SYMINGTON. I know something about the Northrop Corp. back from the RFC days when I ran the RFC and had to put up the money, which we did, or there would not be any Northrop Co. It was going into bankruptcy.

Mr. MILLAR. Correct.

Senator SYMINGTON. So I know something about the company. I should think that, as I understand it, was an all-for-all and one-for-all corporation, and I did not particularly relish the apparent effort on your part the other day in the executive hearings, when Mr. Millar was not here, to disassociate the board of directors, especially the executive committee, from certain operations of the management. Actually under the law it is the responsibility of the executive committee to know what is going on with the company's funds, is it not?

Mr. MILLAR. Senator, may I say something on this subject?

Senator SYMINGTON. Yes.

THE EXECUTIVE COMMITTEE

Mr. MILLAR. The executive committee as now constituted is of recent origin. It comes out of a settlement of a stockholders suit and the addition of three new outside directors for the company, and it is that committee that has the responsibility over this rather intensive investigation and reporting.

Senator SYMINGTON. But you have been on the board for 30 years and you are chairman of the executive committee.

Mr. MILLAR. I have only been chairman of the executive committee since the reconstitution of it. I had in the past—

Senator SYMINGTON. Since the committee was formed?

Mr. MILLAR. But I have not been for quite some time. As reconstituted, I then became, again I found myself chairman.

Senator SYMINGTON. Thank you.

THE EDC

Senator CHURCH. Coming back to the question of the EDC, that is a special corporation that was established to promote Northrop sales.

The corporation is Swiss, I believe, and we have already established in the questioning that it was meant to act as a kind of cover for the Northrop Corp.

Now, the actual purpose could not be better described than it is described in the report of Northrop's accountants on page 193. I would like to read into the record what the Ernst & Ernst report discloses.

At this point DeFrancis gave what appeared to be a rather comprehensive description of the theory of the Lockheed or EDC type arrangement. He said that it lets people in each country work for themselves. In effect, enough money

is put into the company (in Northrop's case \$200,000 was put into EDC) to cover each person's out-of-pocket expenses. Apparently each person recruited by the EDC organization is promised that he will receive his out-of-pocket expenses and in addition a share of the stock in EDC so that he is in effect working for himself and the benefits he achieves accrue to him through his stock ownership.

He said it was not necessary that they know a lot about the technical aspects of the airplanes they are selling. As a matter of fact, DeFrancis went on to say, "I do not know a damn thing about an airplane except the nose and the tail." He said this theme would apply to the EDC people. The point is that they look only to the benefits derived from the success of the program rather than to developing the typical sales type organization that would be customary in this country for the sales of automobiles or other products.

That statement makes it perfectly plain just why such an organization was set up. It was set up so that Northrop would not have to ask any questions about what methods were used to sell Northrop products.

It was set up so that people promoting Northrop products could do so without identifying themselves as Northrop agents. And if this is typical of the way big arms manufacturers ply their products, then it is symptomatic of a sickness in this business that must be exorcised.

EDC SHAREHOLDERS

Mr. SHIELDS. I think this is a good point to ask Mr. Millar if you know who are all the stockholders of EDC?

Mr. MILLAR. No, I do not. We have asked, we have inquired, we have interrogated them. I think we know some of them.

Mr. WILLENS. We have identified the majority of the shareholders in EDC but Mr. Millar's answer was correct, we do not know all of the shareholders in EDC.

Mr. SHIELDS. Is it impossible under Swiss law for you to ascertain that information from public documents.

Mr. WILLENS. Yes, we have reviewed the public documents involved and they reveal three names, as I recall, only one of whom is a current shareholder in the EDC, and that is information which is not available in that country as it would be in this country.

Mr. SHIELDS. So that it is possible then for a variety of people, perhaps some foreign government officials, to be shareholders of EDC, but impossible for the Northrop board or its investors to determine that fact?

Mr. WILLENS. That is a possibility that has to be acknowledged. We have the assurances of the majority of principals involved in EDC that this is not the case. They are men of stature and good reputation. Nonetheless, the possibility must be recognized as one that has not been foreclosed by our investigation.

Mr. LEVINSON. Have we not had this really explained beyond the caveat by Mr. DeFrancis in his letter to Mr. Jones of August 9, 1974, pages 238 and 239, in which he says that he asked Forried, the main organizer of EDC, what the company does as to my direct questions regarding the specific involvement of his company in sales efforts in the different countries? Forried reminded me that one of the underlying factors and conditions that was prerequisite in his organization was that it remained a separate independent organization. As a consequence, the method and utilization of personnel on behalf of the corporation are so structured that it is able to advance the cause of Northrop in the sale of international fighters not only on the basis of confidentiality but also uniquely independent of any direct Northrop

connection. He stressed to me that, as you originally envisioned, this principal gives him a wide degree of flexibility in procuring the best people for the particular assignment and in many instances enables him to secure persons who otherwise could not be directly involved for various reasons with Northrop as such. Why could they not be directly involved with Northrop as such if their association was proper and unexceptionable?

Mr. WILLENS. Counsel has identified, I think, the key issue which the board of directors of the Northrop Corp. must address within the next few months. I do not believe there is any dispute between the subcommittee, on the one hand, and the directors on the other, as to the facts in this matter which raise the issue. The principal questions are one of what inferences one draws from these facts regarding the existence of improper conduct and, second, the questions of business judgment involved.

Even if this was a sound exercise of business judgment when EDC was set up, because it was based on the Lockheed model and seemed a useful mechanism to experiment with, circumstances have now changed, additional facts are now known, and the board will have to address this matter of business judgment in light of the circumstances existing today to decide whether it can continue its relationship with the EDC.

Senator CHURCH. The circumstance today is that it is exposed and that does change the picture very considerably. When your cover is blown it has very little utility left.

Mr. WILLENS. Perhaps the key change in circumstance, Senator, is that EDC has now been disclosed to the board of directors and the board must confront the policy issue squarely as to whether or not this kind of instrument should be used to assist Northrop sales abroad.

Senator CHURCH. I should think so.

Senator Clark.

Senator CLARK. Thank you, Mr. Chairman.

THE USE OF AGENTS IN AIRCRAFT INDUSTRY

Mr. Millar, is it your experience that the practices that you have discussed here today are typical of the aerospace firms, or are these practices peculiar in the Northrop Corporation?

Mr. MILLAR. Well, I would have to answer by giving a little history. In 1939 I became president of Vultee Aircraft, which was a very small aircraft company and which had then no business in the United States Government, and I inherited business, contractual relationships with China, South American countries, Turkey, and others. I was a novice when it came to these matters and I quickly found out that there was no particular secret about it, in talking to the agents, that it was common practice to pass on to people in government, procurement agents, parts of their fees. I had no part in extending that practice because we completed our financial foreign credit, we set out to do business then with the U.S. Government, and as you may know, Vultee made all of the basic trainers, for instance, for the Air Force. So that my experience began and ended as far as Vultee was concerned and with an inheritance.

I would have to say that in talking with other aircraft company officials over the years, and even general companies and the like, I have grown to assume that most of them, many of them, all of them, used foreign agents for foreign sales.

Senator CLARK. And that they practiced these irregularities and illegalities?

Mr. MILLAR. No; this is the part I do not know. All I know is that it is typical to deal with these foreign governments through foreign agents. The alternative is quite obvious. You set up a big organization, perhaps big ones, expensive ones, in countries who even then may be unfamiliar with all of the practices and the mores and ways of doing business, intricacies of the flows of the bureaucracy and what not, so that the alternative is pretty clear, has been pretty clear that if you wanted to do business in certain countries you did it through agents.

As a matter of fact, some of the countries tell you to do it through agents.

Senator CLARK. Well, I am not so concerned specifically about whether you operate through agents but whether these irregularities and illegalities through agents are common to most aerospace industries or unique to Northrop.

Mr. MILLAR. I cannot speak for the rest of the industry, obviously.

I must say that the operation in the case of Northrop has only become clearer to me since the operation of the Executive Committee, which has spent a great deal of time, nights, weekends, whole days, everything else, investigating this situation so we would be fully informed.

VIOLATIONS OF SAUDI LAW

Senator CLARK. Is it fair to say, Mr. Millar, that the Northrop Corp. and Mr. Khashoggi knowingly violated the Saudi Arabian law in passing this money on?

Mr. WILLENS. I do not think it would be fair for Mr. Millar to respond because of our absence of knowledge as to what Mr. Khashoggi, in fact, did with the money. And so if you assume that the money was passed on to generals we would agree that would be a violation of the law.

Senator CLARK. Was it the intention of the Northrop Corp. to bribe the generals?

Mr. WILLENS. Whether an intention implemented by the overt action of the kind that had been identified and can be proved even amounts to a crime under Saudi law, I do not know. Those facts may be illegal under U.S. law given comparable facts, but I do not know what the Saudi law is on that precise issue.

Senator CLARK. Going beyond saying the Northrop Corp. intended to violate the law in this respect would be inaccurate, in your judgment?

Mr. WILLENS. I think given our present state of knowledge it would be inaccurate to go further than that, but obviously it is an area of subtlety where I have not done the appropriate research.

THE HIRING OF AGENTS

Senator CLARK. Let me ask more, Mr. Millar, about the questions of these commissioners and how common it is to hire commissioners to do various things for you in local countries.

I am quoting from a part of the report. Rather these are notes from which the Ernst & Ernst report was made, handwritten notes. It is not in the report itself. It talks about these commissioners, and I am simply going to read a couple of sentences to you and ask if this represents, to the best of your knowledge, a correct characterization. These are handwritten notes about Ernst & Ernst from a Mr. John R. Hunt who is, I think, president of the Worldwide Wilcox firm, which is a subsidiary of Northrop.

It says John R. Hunt likes to keep the Worldwide Wilcox percentage at about 10 percent—speaking of the commissions—because of the feeling that the sales of Wilcox hardware is a great entrance to a multimillion dollar system job. However, he did say that the standard 10 percent commission exceeded, if competition dictates, and/or if the magnitude of the graft in the country was higher than usual.

In the next paragraph he says we discussed agents, their role, and so forth. In general the role of the agent is primarily that of influence peddler, that he knows who to talk to and whose pocket to line, and in a particular country to get the job done.

Do you tend to agree with Mr. John R. Hunt's analysis of what these commissioners really do?

Mr. MILLAR. First of all, I do not want to presume to speak for the industry. Quite obviously my job is to find out what we have done in Northrop, how we have done it, what we should do in the future. I think there has been a presumption abroad for quite some time that agents are necessary in a great many places. I think, if you ask certain people they will probably say that they guessed that all the money did not stay in the agent's hands. On the other hand, I have no basis for making any further comment.

Senator CLARK. Would you disagree, just based on Northrop's experience or your association with that company, that those characteristics are fairly accurate, or is Mr. Hunt exaggerating in your judgment?

Mr. MILLAR. Not necessarily, no.

CORPORATE RESPONSIBILITY

Senator CLARK. I think the other line of questioning that I want to pursue just briefly, Mr. Millar, is the question of the degree of responsibility, and where responsibility really lies within multinational corporations, like yours. Is the board of directors responsible, the executive committee or the management?

It seemed to me in discussing this with Mr. Dorsey of the board of directors of Gulf Corp., that it is very hard to pin down who really is responsible for the actions of the company.

I noticed, for example, in your statement at certain points—I will just quote a couple of them here—you talk about the board of directors or the executive board finding out about something.

Pursuing what Senator Symington was talking about, later on page 2 you said in late March of 1974 the board of directors of Northrop was first informed that senior management had used corporate funds to make contributions to the 1972 Nixon campaign.

Is that the first time you had ever learned of that very significant violation of the law?

Mr. MILLAR. Correct.

Senator CLARK. Or, again, one other example, bottom of page 3, "Since Northrop agreements with agents and consultants have not customarily come before the board for approval, the entire subject was a new one for the board." Who is responsible for Northrop company and their activities and illegalities so far as these cases are concerned?

Mr. MILLAR. Certainly the directors cannot duck any of their responsibility. A director of a corporation has very great responsibility, greater under some circumstances.

Our responsibility obviously is first to the stockholders.

THE NORTHROP BOARD OF DIRECTORS AND AGENT RELATIONS

I would have to say that the board of Northrop, the outside independent directors of Northrop now know that we should have known more about the intricacies of the agent relations. We did not, and I for one would take my full share of the blame for that. We assumed that these were standard, typical, and in conformance with the best practice. It was a series of events that came out of the political contributions, use of Mr. Savy as a conduit that raised these questions, and as soon as the board of Northrop, the outside independent directors, which as I said are a majority and have always been, if I remember—as soon as we found out that a Mr. Savy had been used as a conduit we launched the investigation to include the use of the function of agents and consultants.

Senator CLARK. Let me pursue one aspect of that responsibility. I am looking at the top of page 15 of your statement. You spoke just a moment ago about the relationship between the board of directors and the corporation and these agents and I am interested in the degree of responsibility that the board or corporation feels for its own activities.

You say here in practice the American corporation does not have the ability to monitor all of the actions of the agents with whom it must deal and cannot be held responsible for activities or practices which the corporation does not know about and does not tacitly or explicitly approve.

If these agents represent your corporation and you do not feel responsible to monitor them or be responsible for what they do, and yet they represent you with that government, who is responsible for their activities?

I agree with you that it seems doubtful that you are going to be able to monitor all of their activities, but somebody has to be responsible for the actions or the people that represent you with that government, it seems to me.

Mr. MILLAR. In an operation the size of Northrop there are a great many agents of various kinds, sales agents, products of the electronic division sold through agents. I have forgotten the number. But it is a very large number of agents that Northrop has in the sale of its products abroad.

Mr. WILLENS. If I could amplify a bit.

NUMBER OF AGENTS RETAINED BY NORTHROP

The number Mr. Millar had in mind is approximately 400 consultants and agents that were retained by Northrop during the 3-year

period that was reviewed by the auditors. The point that Mr. Millar is trying to make on page 15 of the statement is to draw a distinction between the responsibility which a corporation must take for its own employees, wherever they may be situated, and the responsibility which a corporation can reasonably take for actions of independent businessmen, whether they be agents or consultants, who are retained under particular contractual arrangements to do specific jobs; and it is the latter problem the testimony is designed to highlight.

The company has a responsibility, as you say, to enter into contracts and specify what the agent or consultant is to do, what kind of controls are to be imposed, what kind of report obligations there are, and what kind of compensation is provided by the company. The contract defines the relationship and within the definitions and provisions of that contract an agent is free to conduct business on behalf of the company as he thinks most appropriate, and in selecting the agents and the consultants Northrop is concerned by their willingness to comply with the law and services of the corporation with integrity and distinction.

That is why in recent months we are now insisting all new consultants or agent contracts over a bottom floor sum, the agent or consultant must covenant that no funds made available to it from Northrop would be expended by the agent with or without Northrop's knowledge in violation of applicable law, and that clearly spells out something that perhaps should have been spelled out long before, but was not, and now our agents and consultants recognize that Northrop insists on this level of legal behavior in acting in behalf of Northrop abroad.

THE TAX PROBLEM

Senator CLARK. I want to turn the questioning back to the chairman. I have a number of questions about the EDC—but let me ask one last brief question—I refer you to page 8, the middle of the page, second paragraph, the last sentence—you say, "In addition, the directors have taken steps to assure the payment of \$450,000 is properly treated as a nonallowable for purposes of Federal income tax and Government contracting accounting."

Was this done after the fact? Was the \$450,000 actually used as an expense so it could be deducted from your taxes? Can you explain the status of that and the meaning of that? Is this something you have also done after the fact or during the fact? Explain the status of the tax problem.

Mr. WILLENS. As the Senator will recall, we had a colloquy on this in executive session which I think left all of us somewhat unclear.

I can answer the question I think briefly.

The \$450,000 was taken as a deduction. However, due to the intricacies and mysteries of the accounting profession that resulted in Northrop overpaying its taxes for the year in question because the payments and the amounts charged to income during the year 1973 on this particular contract were based upon the costs that were advanced against the contract. Therefore, because this \$450,000 was tendered as a deduction, the amount of profit shown by Northrop was higher than it otherwise would have been there, and therefore, the amount of income tax paid in 1973 was higher than it otherwise would have been.

Now, in light of these facts, of course, the matter of \$450,000 will be withdrawn as a deduction and an appropriate amendment will be made, and I can assure you, Senator, that this information accurately reflects the best judgment of the financial officer within the company and that is where the matter stands.

Senator CLARK. I am not quite sure I understand that. You did submit the \$450,000 for deduction but because of other factors you really overpaid your taxes as a result of having deducted this?

Mr. WILLENS. That is correct.

Senator CLARK. I do not understand it.

Senator CHURCH. Now they are going to take it back.

THE ROLE OF DR. WEISBROD

I would like to get into the cast of Dr. Weisbrod.

Dr. Weisbrod, I take it from the information in the Ernst & Ernst report, is a Swiss citizen who was engaged by Northrop to act as an agent for the company. Our information is that he received \$125,000 a year. He was engaged over a 6-year period so the Northrop company paid him \$750,000.

What services did Dr. Weisbrod perform that were worth \$750,000 to the company?

Mr. MILLAR. Mr. Thomas McDaniel, a member of the board and a member of the executive committee, with counsel from Mr. Willen's office has just recently interviewed Dr. Weisbrod and we have not yet had the opportunity to get the full information. Mr. McDaniel is due back in this country—he is just back or due back very shortly.

Senator CHURCH. Well, there is some interesting information contained in the Ernst & Ernst report.

On page 268 of the report is an extract from a letter from T. V. Jones to E. R. Crim, dated September 1974. There is the following description of the Weisbrod arrangement.

The Weisbrod arrangement resulted from concern that while Northrop was being quite effective in presenting its product to the military and Defense Department levels with Holland, Belgium, Norway, Denmark and certain other NATO countries, our ability to have access to behind-the-scene knowledge of what was happening at the political and economic levels, especially in the higher NATO and European community councils as a whole, was seriously lacking.

Then quoting from page 276 of the Ernst & Ernst report there is the following illuminating passage:

Much of the success I could book for Lockheed in the following years in the field of sales of commercial and military aircraft and particularly the unique and highly profitable export program for the F-104 Starfighter, was in no small measure due to his," meaning Weisbrod's, "expert counseling and behind-the-scenes pulling of strings. Hardly did Hubert appear in the open for the support of Lockheed's interest, particularly all of his constructive work was done discretely and indirectly.

So would it not be fair to say that having had such a high and favorable report on Weisbrod's activities for Lockheed that you engaged him to perform the same kind of services for Northrop?

Mr. MILLAR. I do not know who engaged him, actually, if you are directing the question to me.

Senator CHURCH. Mr. Jones of your company did?

Mr. MILLAR. Yes.

Senator CHURCH. It was for the same kind of service, was it not?

Mr. MILLAR. Yes, sir.

Senator CHURCH. Again, with reference to the Ernst & Ernst report, on page 269, there is the following comment:

As a result of Dr. Weisbrod's activities, Northrop has had an unusual visibility into the highest councils of NATO, the Common Market countries and many official and unofficial discussions between the highest officials in Europe as they affect the sale of Northrop aircraft.

Mr. MILLAR. Excuse me, Senator, who said that?

Mr. LEVINSON. This is Jones describing the value of Weisbrod to Northrop in the documents which the subcommittee released.

Senator CHURCH. It is an interesting facet that these companies, like Northrop and its competitors, engaging in these enormously costly, enormously profitable military sales contracts, actually employ a kind of intelligence network like a government might employ, to get inside information, behind-the-scenes information, pull strings, and that is all relevant here in this report.

I am not suggesting that Northrop is the only company to do it. The record indicates Lockheed has been doing it, and I suppose it has become customary to do this kind of thing.

Mr. MILLAR. I cannot answer the question out of my own knowledge because I have not been active in this type of business for a good many years, this side of the business, but I do not know and I do not think I will know until we get the further report from Mr. McDaniel who interviewed the Doctor, just what he did, how he did it, and I do not know to what extent he would disclose what he did or how he did it. This is one of the problems. We are trying to get an answer to this.

Mr. WILLENS. Essentially our investigations have suggested that the issue with respect to Dr. Weisbrod is the same as is raised with respect to EDC, and the question will have to be considered by the board in light of Dr. Weisbrod's reluctance to share with us the details of the services performed in Northrop's behalf in return for which he has received the moneys you referred to.

Senator CHURCH. He would not tell you what he did with the money?

Mr. WILLENS. He basically maintains that the services were performed primarily through the associates or clients of his whose identities he would not disclose to the interviewing team. He did give us all of the requested representations in terms of no funds being returned to this country and no funds being expended for unlawful purposes. However, for the same reasons that others of the agents have declined to supply information, he refused to give us the names of the associates who actually performed the services that are described in the correspondence you have referred to.

Senator CHURCH. Mr. Willens, you are having the same problem of securing the information from your intelligence that I am having securing it from the CIA and other agencies that are under investigation by my committee.

Mr. Levinson, do you have further questions?

Mr. LEVINSON. Just two, Mr. Millar, you said that Northrop had been meticulous in reporting to the U.S. Government with respect to agents and you made particular reference to Saudi Arabia.

KHASHOGGI'S PRESENTATION TO THE DEFENSE DEPARTMENT

Now, the fact is, that Northrop argued for Khashoggi, its agent, to make a presentation to the Department of Defense in August 1973. The results of this presentation are set forth at pages 503 and 504 of the material that was released by the subcommittee. There is a memorandum which summarizes it by Mr. Gonzales of the Northrop Corporation. At the end of the memorandum, Mr. Khashoggi receives accolades from the Defense Department people who say—Gonzales reports that after the meeting, Dave Alne took me aside and said, "Manny, it was a stroke of genius to invite Khashoggi here today. We couldn't have arranged it, for obvious reasons. It is well that you thanked him. People learned things from him today." Holcombe, another Northrop executive, stated that "Khashoggi sure as hell helped us as well as himself today."

Now, through those memorandums Khashoggi laid out all the wonderful things he does. But, of course, memorandums do not tell, nor does Gonzales, who was one of the people directly involved in the negotiation of the \$450,000, about the activities in connection with the payoffs for the purported payoffs to the Saudi generals.

Now, is not this a case in which Northrop is misrepresenting to the U.S. Government—knowing the full panoply of activities of the agent—what its agent does for it in Saudi Arabia.

Mr. MILLAR. I am sorry, I did not hear the last few words of your question.

Mr. LEVINSON. Let me quote you from page 506 in which Gonzales summarizes Khashoggi's presentation to Defense which says:

The fourth and final point of Khashoggi's story was that, although the absolute dollar amounts of his commission might lead people to believe that the decision in favor of the companies he represents were the results of serious payoffs or undue influence or improper dealings by whatever name, such in fact was not the case.

Now, at the time this representation is made to officials of our Defense Department, Khashoggi and Northrop representative Gonzales know that that is not true, it is an outright lie, is it not, and is Northrop not a party to that?

Mr. MILLAR. I do not know the date of that.

Mr. LEVINSON. August 13, 1973.

Mr. MILLAR. Well, I think it is perfectly clear now that Khashoggi sought funds to make payments and the money was provided.

Mr. LEVINSON. And Northrop knew that was the purpose for which Khashoggi sought funds, and here Khashoggi represents that he never did any such thing with Northrop. Precisely, Northrop representatives negotiated this payment with Khashoggi in the same room with the Defense Department. Do we not have a clear case of misrepresentation to the U.S. Department of Defense?

Mr. WILLENS. We have an instance, Counsel, where people present in the room did not volunteer information which would incriminate them. That is absolutely true. The meeting was set up to communicate with the Department of Defense about the services performed by agents in general, Mr. Khashoggi in particular. Northrop believed then and continues to believe that this particular agent does perform substantial and complete legitimate services for it in the country. We

do not have any hard evidence of any illegal payoffs of any kind other than the \$450,000 disclosed here today.

I concede your basic point, however, that people in the room with knowledge of this let a conversation take place in which they did not come forward to volunteer information that may have been of relevance to the U.S. Government officials.

Mr. LEVINSON. Mr. Willens, this is not an isolated instance involving these two individuals.

On page 456 of the documents which the subcommittee released, we have an account of the signing of the first phase, I believe, of the Peace Hawk agreement in Saudi Arabia, and in which Prince Sultan and Prince Turki came into the conference room and were seated at the table. Sultan reviewed the contract. He mentioned the previous release about the F-5's and Lockheed's contract and said any public test should be avoided. He then asked me, "Do you have any agent in Saudi Arabia?" This is Sultan asking Northrop's Gonzales. He said, "No, not in Saudi Arabia." The Ambassador, meaning the U.S. Ambassador, added that since this was a Government deal there would be no middleman.

Let me read to you from the auditor's notes. Watts of Northrop made the response, "No, we do not have an agent." Let me read you from Gonzales' explanation of that event. Gonzales explained that Khashoggi had told him in advance of the signing that Sultan can make a public display at the signing and ask if Northrop had an agent in-country. Khashoggi said that he would be out of the country and that the response should be that Northrop did not have an agent in the country. He said that this was a normal procedure that he, Khashoggi, followed.

Now, Gonzales says that afterwards he felt bad about this because of the Ambassador's statement to Sultan that since this was a government deal there was no middleman.

ASSURANCES FROM NORTHROP AND MR. KHASHOGGI

So again we have the same two individuals, in a sense in a charade, in which a high U.S. Government official is deliberately deceived.

Of course, there is a separate issue as to whether or not our Government through other means had knowledge or should have had knowledge of these arrangements. But the real question is, I guess, in light of your statements about Khashoggi's assurances to you that he is not going to do thus and so. In light of this record are we not entitled, is not the subcommittee, the Government, entitled to have a degree of skepticism about the value of these assurances, both from the corporation and from Khashoggi? Would he have two interests here to deliberate—I cannot find any other way to characterize it—it is deception of U.S. Government officials.

Mr. MILLAR. Well, I cannot suggest what your reaction would be to it but quite obviously this is part of our continuing investigation that will come up in the decisionmaking process.

There is no doubt about it—the commission was solicited and payments were made by the corporation. It is a matter of record not to be argued.

Mr. LEVINSON. That was not the point though. The point was what was said or not said, as Mr. Willens previously pointed out, to the degree to which the U.S. Government officials were led to believe that something was so that was in fact not so. That is not a question of whether the payment was made but not only an omission but commission was made with respect to a fact to the U.S. Ambassador in Saudi Arabia, U.S. Defense Department officials, and what does that tell us then about how we should view future representations by the same people who made these representations.

Mr. WILLENS. We think that is a matter under ongoing investigation, Mr. Levinson, and will be addressed in our final report. Until you see the report we hope you will reserve final judgment as to the integrity of the board of directors' investigation and the recommendations they make to cure things for the future.

Senator CHURCH. Mr. Shields.

CONFLICT BETWEEN THE NORTHROP BOARD'S REPORT AND THE ERNST AND ERNST REPORT

Mr. SHIELDS. With respect to the board of directors' investigation, there are a couple of points which seem to be in conflict between the interim report of the executive board and the documents which were gathered at the earlier Ernst & Ernst investigation.

THE IRANIAN AIRCRAFT INDUSTRY (IACI)

The documents, pages 364 and 367, show that a General Khatami, head of the Iranian Air Force, was a stockholder in the Iranian Aircraft Industry, and acted for Northrop during 1970-71. I would like to read two brief excerpts from page 364. These are notes of a conversation with a Mr. Kitchen, who is the chief Northrop representative in Iran.

Those notes say—these were notes taken by the Ernst & Ernst investigating team in the conversation with Kitchen: "When we first asked him"—Mr. Kitchen—"about who was involved in the Mahui group"—that is the Iranian Aircraft Industry group—"he mentioned a Spencer Dunn. He then explained that Khatami had been a 'blind stockholder' in IACI and was involved with Mahui."

Then, at page 367, in brief notes given by Mr. Jones' staff to Mr. Jones for the president of Northrop in preparation for Mr. Jones' trip to Iran, those notes say with regard to IACI:

The Shah has decided that the ownership interest, which was held in IACI through nominees by General Khatami and General Khademi presented a conflict of interest which could prove embarrassing to him and his government."

Two sentences later, in parentheses, it says:

General Khatami told Kitchen and Gonzalez that he thought of retiring from the Air Force so that he could continue to hold his shares in IACI, but that after talking to the Shah decided that it was not appropriate.

That seems to be in conflict with the statement on page 31 in the interim report, which said that—and I quote:

The investigation has revealed no evidence that Iranian official participated in Iranian Aircraft Industry.

Could you explain that apparent inconsistency?

Mr. MILLAR. I would like to have Counsel answer that question because they have made a much more detailed study of this situation.

Mr. WILLENS. This is a good example of a case where there is speculation in the documents of impropriety, which upon further investigation turns out not to be accurate.

We have interviewed Mr. Kitchen on this subject. We interviewed officials of the Iranian Aircraft Industry, IACI, referred to in the interim report, and examined the corporate books of IACI. We have identified the civilian shareholders in IACI, none of whom were officials of the Iranian Government.

It was originally believed that bearer shares might be issued by the corporation and it was that prospect that led some people to speculate that those bearer shares would eventually find their way into the hands of government officials. In fact, no bearer shares were issued. So we believe that our investigation has been complete. We have inspected the books. The particular organization involved is an aircraft maintenance corporation in which Northrop has been a major shareholder. It was set up in large part at the urging of the particular Iranian generals involved, because they wanted to have a locally operated maintenance facility to service both military and civilian aircraft. It was something in which they had a clear and proper governmental interest and, if indeed they looked ahead to their retirement years and thought of becoming affiliated with it, that seems to us not an impropriety but certainly something that would be very legitimate and understandable.

DR. FRANZ JOSEPH BACH AND THE PROJECT DEVELOPMENT CORP.

Mr. SHIELDS. Let me go to another point on page 13 of the interim report of the executive committee. You state the Northrop executive committee conducted a lengthy interview of EDC principals and you name Dr. Franz Joseph Bach and the Project Development Corp. Is it not true throughout the period of this contract Dr. Bach was a member of the German Bundestag?

Mr. MILLAR. At one time.

Mr. SHIELDS. Then how can you state in your statement—this is the statement you read this morning, at page 10—you uncovered “no evidence that any government officials participated as shareholders or otherwise in the activities of EDC”?

Mr. WILLENS. We do not know when Dr. Bach became a shareholder. He left the parliament in 1972 and the EDC has, of course, continued in operation since that time. That explains the references to which you have directed our attention.

Mr. SHIELDS. So it is possible he was a shareholder but you have been unable to determine because of the secrecy under the Swiss law?

Mr. WILLENS. That is exactly the case.

Mr. SHIELDS. Did you ask him while he was being interviewed at the Northrop corporate headquarters—Dr. Bach—whether or not he had held shares of stock at a time when he was a member of the Bundestag?

Mr. WILLENS. I do not remember that precise question being asked. We will review our notes and make certain it is asked and answered.

The representations set forth here were based on his statement that none of the shareholders were in this category and we believe that disposed of the matter with respect to himself, as well.

EUROPEAN LAWS

Mrs. LEWIS. I might note that we have received from the Library of Congress information about the existing laws in European countries regarding any possible conflict of interest by members of Parliament, and they seem to indicate that there is no question about under German law there was an obligation to report and a prohibition regarding any relationship with a company that might interfere with its representation. So where there have been cases of this sort, he would have every reason to not wish to answer.

One of the features of your list of consultants that tends to strike the eye is the large number of people who worked both for your company and for competing aircraft companies. I noticed for example, that Mr. Khashoggi, you indicated, worked for Lockheed. You indicated Mr. Weisbrod possibly did not while working for Northrop but certainly previous to it worked for Lockheed. We have some evidence from Europe that Mr. Harritson or Gerritson, the Dutch consultant, was also a consultant for Lockheed. And it occurred to me there might be some sort of a problem by these people in trying to represent two competing aircraft manufacturers.

Do you think this is the case?

Mr. MILLAR. I do not think there is a problem because the things that they represented products for, Mr. Khashoggi represented Northrop, for instance, were not in competition with Lockheed. The fighter plane had no relationship to the Lockheed products. This is my information. Lockheed products he was trying to assist in the sale of, they are a different kind of animal entirely. They serve a different purpose. They are not in competition with each other, the products are not.

Mrs. LEWIS. Is this by some agreement between your company and Lockheed?

Mr. MILLAR. No, no just sheer happenstance. Lockheed does not have a competing product at this time in the field he represents.

WHO RECEIVED PAYMENT?

Mrs. LEWIS. A second question simply is in both your testimony this morning you made reference to checking with informed sources in the country. I think it was the phrase, "before checking with informed sources within the country, before making the two most questionable payments on which we have evidence, namely, the \$450,000 to possibly some Saudi general, and the payments to the Iranian taxing authority."

Did these informed sources in the country include members of the U.S. diplomatic corps, ambassadors or embassy officials in these countries?

Mr. MILLAR. I have to confess I do not recall the statement that we consulted sources before making—

Mr. WILLENS. I think our reference to checking with informed sources, including U.S. Government sources, related to the time at which the decision to retain a particular agent or consultant is made by Northrop. At that time Northrop will solicit information from all possible sources and the embassies which frequently have valuable judgments to contribute to the value of a particular agent or consultant.

With reference to the specific improper payments, however, that is the subject of the testimony today, there was no effort by Northrop personnel to solicit the aid or advice of U.S. Department of State officials before making the judgment that such a payment should be made.

Mrs. LEWIS. To quote from your statement, Dr. Meissner pointed out before the demand for the payment to the generals was acceded to, I am quoting from your statement, "Northrop officials were both disturbed and skeptical about this demand. They made an effort to determine whether such a payment was necessary."

I am still somewhat puzzled as to how such an effort was made. To whom was the effort addressed?

Mr. MILLAR. Northrop officials in this case are the people in the country working for Northrop, representatives of Northrop, and when you say officials it was not board of directors or some one of this kind, it was people on hand that were very doubtful whether this was necessary. Certainly must have been doubtful whether it was proper.

Mrs. LEWIS. Who would they have gone to? It is obvious there would have been no point in asking Mr. Khashoggi if the money was—

Mr. MILLAR. I think perhaps part of the story is told by the delay in which the time of the request until the Northrop officials acceded to it. The delay which I would assume was partly because they wanted to be awful sure that this was legitimate in the sense that it was. I used the wrong word obviously. I am sorry I did. Whether this was in effect a situation as reported, that whether Mr. Khashoggi put it that way was telling them the truth.

Mrs. LEWIS. We still do not know the answer on that one.

Mr. MILLAR. No; I do not.

Mrs. LEWIS. I was wondering to whom one would address this sort of question. How would you try to find that sort of thing out?

Mr. WILLENS. Let me say consideration was given apparently to raising this matter directly with the Saudi officials.

Mrs. LEWIS. This was not done, was it?

Mr. WILLENS. Wiser counsel prevailed and it was decided it would be inappropriate to do that in a direct way. There was consultation with the agent involved. Really there was no effective way of determining whether the payment was necessary in the sense that it represented a communication from the general involved to the agent that was in fact made. There was no real way to do it. Thought was given to some alternative ways of doing it. None seemed very practical. After this period of time the decision was made to transfer the money to the agent.

Mrs. LEWIS. I am a little struck, Mr. Willens, by your use of the word wiser counsel prevailing.

Thank you.

Senator CHURCH. Senator Clark.

THE ECONOMIC DEVELOPMENT CORPORATION

Senator CLARK. Just one brief line of questioning that the chairman spent a good bit of time on. I would like to follow up a couple of questions on it, because it is one of the most interesting aspects of this whole question of the Swiss company, the Economic Development Corp., about which we seem to know so little.

You do not know who the shareholders are or whether the German Bundestag member was a shareholder. I was under the impression the Northrop Corp. actually established this corporation in 1971. Is that an inaccurate description of its origin?

Mr. WILLENS. I do not think that is basically inaccurate. There was a decision to do it. That is reflected in the documents. The means of doing it was left initially to Mr. DeFrancis who picked the principal to actually set it up in Switzerland and bring into the organization those people that he thought could be of assistance in the overall sales effort.

Senator CLARK. And the so-called function of that company, as I understand it, is promotion of Northrop products, is it not, or did they have other purposes?

Mr. WILLENS. Well. I do not believe there is anything in the contract, but I might be wrong restricting them to representing Northrop Corp. It may well be this is a vehicle which serves as a representative of other companies.

Senator CLARK. You are not aware of any functions they have other than promoting Northrop, or are you?

Mr. WILLENS. No.

Senator CLARK. It seems to me if Northrop runs the company, if their sole purpose insofar as you know is to promote Northrop products, would it not be safe to assume that Northrop would have considerable leverage over getting EDC to reveal its activities?

Mr. WILLENS. EDC principals and their lawyers take the position, Senator, that they have fulfilled their responsibility under the contract and they have no legal obligation to supply further information to Northrop under the contract. This is a matter now of negotiation between the management of Northrop and the EDC principals looking toward a revision of the contract that will meet the kind of problems that we have talked about here.

Senator CLARK. You do not have the leverage at this point to require the kind of information that you want?

Mr. WILLENS. We believe we have some bargaining leverage, Senator, in the sense that there are substantial commissions which EDC believes are due and owing to them for service performed, and to that extent we are trying to work this out on an amicable basis which will result in either a revised contract that is acceptable to the board of directors or a settlement which results in a termination of the relationship.

Senator CLARK. Well. I am just curious, last, about whether it is conceivable that Northrop does not want EDC to reveal certain information?

Mr. WILLENS. No, sir.

Senator CLARK. You would like to have them reveal information?

THE EXECUTIVE COMMITTEE

Mr. WILLENS. Our effort has consistently been on behalf of the executive committee to ascertain all the facts, whether they reveal illegal conduct or not. Those are our directives from the executive committee. Those are our responsibilities under formal court decrees and the executive committee of outside directors.

Senator CLARK. You are doing everything you can to get that information?

Mr. WILLENS. Yes.

Senator CLARK. Did you not just give them \$500,000 additional commissions very recently?

Mr. WILLENS. That was done on the basis of the discussions which we had with them, Senator. It was done under a condition where the Board felt it had to exercise its best business judgment as to how best to apply the kind of leverage which the company does have, how best to reassure these people they were not being terminated in violation of a valid contract, because the interests of the shareholders did not lie, in the Director's judgment, in a precipitous judgment which would terminate a relationship with people who appear to be honest, reputable, and have performed, according to their representations meaningful services for the company. That was a judgment that was made and undoubtedly will be revisited in the course of the next few months.

Senator CLARK. Let me just quote one sentence from the report before turning this back.

It says: "The company." I am quoting, "Northrop is not interested in knowing how the EDC operates and who they are in touch with but can only measure the benefit of the EDC by sales which occur."

Is that a fairly accurate description of Northrop's attitude?

Mr. WILLENS. We are here speaking for the executive committee of the board of directors which is conducting an inquiry into this exact matter. It is true the people who entered into the agreement felt with good reason at the time that was a useful technique. Now, there were many, as our report demonstrates, there were a wide range of sales techniques used by Northrop during the past 5 or 10 years. The board in light of the facts it has now developed has to reassess the entire range of sales techniques abroad to decide which of those comport fully with the law and comfort with the kind of corporate image that Northrop wants to project.

Senator CLARK. You have not made a decision yet as to whether executive committee of the board of directors really approves or disapproves the way in which your relationship with the EDC—

Mr. WILLENS. I think based on the facts the records have revealed they feel that if this matter had been presented to them originally they might have made a different kind of business judgment. They have obligated themselves to review each of these relationships when all of the facts are in and decide which of them should be retained, which should be revised and which should be terminated, irrespective of the legal or financial consequences of the decision.

Senator CHURCH. Thank you.

THE INTERVIEW WITH PRINCE CHARAM OF IRAN

Mr. LEVINSON. Mr. Willens, did you go to Iran to interview Prince Charam, who was the agent for Northrop, and his nephew?

Mr. WILLENS. That was one of the purposes of the trip.

Mr. LEVINSON. Did you request an interview with the Prince?

Mr. WILLENS. Yes.

Mr. LEVINSON. Did he grant you an interview?

Mr. WILLENS. No.

Mr. LEVINSON. Have you submitted questions with respect to the use that he made of the money that was paid to him as an agent to him?

Mr. WILLENS. Yes; we have submitted questions and we have some recent intelligence that responses to those questions may be forthcoming.

Senator CHURCH. Have you received the response to date?

Mr. WILLENS. No; we have not.

Senator CHURCH. Has Siemens also refused to respond to Northrop to the use it made of the \$1.2 million paid to it to be used to pay for some purpose?

Mr. WILLENS. As the interim report indicates, the Siemens' representative we interviewed gave us written assurances that the money was not returned to the United States for political contribution or any other improper purposes. However, the Siemens' representative would not disclose where the money went that was paid into a Swiss account at its direction from the four consortium members.

Senator CHURCH. Then, in other words, although the examination is not yet completed, nevertheless you state the executive committee has not found any evidence of wrongdoing under Iranian law. Is that statement incomplete?

Mr. WILLENS. No; the statement is not incomplete. The statement reflects the status of our investment at the present time. As new facts are brought to our attention as the final report is prepared they will be reflected in our conclusion at that time.

Senator CHURCH. I do not know how you are going to conduct a thorough examination if your own agents in the field will not tell you what they do with the money. I do not know how you are really in a position to say it has not been used for unlawful purposes. All you can say, it has not been returned to the United States and you have been assured that in this record it has not been put to unlawful use. You do not know what use they have made of the money, you are not in a position to testify whether or not the money has been used in a lawful way.

Mr. WILLENS. We have no evidence it has been used improperly Senator, but you are right, we have no evidence as to how it was used and, therefore, the reference still remains that it might have been used for improper unlawful purposes.

Senator CHURCH. Yes.

MR. RAYMOND CRIM OF ERNST & ERNST

Well, I want to say that because of the lateness of the hour I am not going to call upon Mr. E. Raymond Crim of Ernst & Ernst to testify. Mr. Crim has prepared a statement. That statement will be incorporated in the record. I would like to say, however, that the Ernst & Ernst report has been very thorough and professional and so the committee sees no reason to call Mr. Crim in view of the testimony that has been given this morning.

[The information referred to follows:]

PREPARED STATEMENT OF E. RAYMOND CRIM, JR., OF ERNST & ERNST

Mr. Chairman and Senators, my name is E. Raymond Crim, Jr. and I am a partner in the accounting firm of Ernst & Ernst. I have been associated with Ernst & Ernst for 30 years and a partner since 1957. I have been a certified public accountant since 1949. In recent years I have been associated with the national accounting and auditing staff of Ernst & Ernst in the National Office in Cleveland, Ohio. I was placed in charge of the special investigation which resulted in the report on special investigation—Northrop Corp. and subsidiaries, dated November 15, 1974. It is that report which is the subject of my appearance here today.

While we believe that the report speaks for itself, it might be helpful in understanding it to know something of the background of and the methodology used in preparing it.

At a meeting on April 29, 1974, the board of directors of Northrop authorized the entry of a guilty plea by Northrop to charges that it had made illegal political contributions.

At its April 29, 1974 meeting, the board of directors also determined that Northrop's independent auditors, under the supervision of and in consultation with the audit committee of the board of directors, should conduct a special investigation of political contributions made by Northrop; and inquire into and report upon the nature and extent of Northrop's relationships with its consultants, agents, or other such independent representatives (particularly foreign). As an integral part of the special investigation, the auditors were to report upon payments coming to their attention which appeared to be illegal, unauthorized or of interest to the audit committee, and to recommend appropriate management controls to provide accountability for payments to such consultants, agents or independent representatives. Accordingly, the board of directors initiated steps for an investigation of such matters by Northrop's Audit Committee, its independent accountants, and its outside legal counsel.

In accordance with an agreement with the Securities and Exchange Commission, as set forth in a letter dated May 17, 1974, from Northrop's outside counsel, Wilmer, Cutler & Pickering, to Mr. Stanley Sporkin, Director of the SEC's Division of Enforcement, an additional accounting firm, Price Waterhouse & Co., was engaged to participate in the work of Ernst & Ernst.

After intensive discussion among the auditing firms, Northrop, and its counsel, the outlines of the respective engagements of Ernst & Ernst and Price Waterhouse were prepared and set forth in two separate letters, dated June 10, 1974, to the audit committee of the Northrop Board of Directors. Those engagement letters and the outline of special investigatory procedures, copies of which are included as exhibits I-1 through I-3 to the report, were approved by the audit committee on June 10, 1974.

Pursuant to those letters of engagement and the related program of investigatory procedures, Ernst & Ernst, in conjunction with Price Waterhouse, commenced the investigation into political contributions of Northrop corporate funds and the nature and extent of Northrop's use of consultants, agents or other representatives, particularly those located in foreign countries. The investigation was, by its nature, subject to inherent limitations, as more fully explained in the letters of engagement and the report itself.

The procedures employed in conducting the special investigation were those deemed applicable to the investigation and did not constitute an examination in accordance with generally accepted auditing standards. The report is based on data furnished from many and varied sources, and generally was not (and often could not be) subjected to independent audit verification. By way of illustration, much of the information sought existed only in the form of personal knowledge of individuals who were familiar with events or transactions which had occurred. In many cases, several years ago. In some instances, such individuals were not employed by Northrop or under its control, and in many instances they resided in foreign countries.

Because of the restrictions inherent in the subject matter of the investigation and the practical limits of time, the appropriate scope of the investigation was subject to periodic consultation with the audit committee. Notwithstanding the fact that in excess of 9,500 hours of auditors' time was employed in conducting the special investigation, it was still not possible to resolve each question raised during the course of the engagement. Accordingly, with the concurrence of the Northrop Audit Committee, certain matters were left for the audit committee to pursue.

In view of the fact that a considerable portion of the report was based upon personal interviews, the report was carefully scrutinized, first by each of Ernst & Ernst, Price Waterhouse, and Wilmer, Cutler & Pickering and then by the principal officers and all of the directors of Northrop. The comments of all of the foregoing were taken into account and, where appropriate, incorporated into the report. However, in the interest of obtaining as much objectivity as possible, the letters of response of the five key officers reviewing the report have been incorporated in section VI thereof.

In form, the report is in seven sections. The first defines the scope; the second discusses political contributions; the third concerns the reimbursement of Northrop in connection with those political contributions; the fifth contains recommendations with respect to internal controls; the sixth, as previously indicated, contains the responses of certain officers to a draft of the report; and the seventh contains a detailed index of the report.

Section IV, which is of immediate concern here today, contains findings with respect to the general nature and extent of Northrop's use of agents and consultants (particularly foreign ones).

I have prepared a short supplement to this statement which highlights some of the investigatory procedures used in the conduct of the special investigation. Copies have been given to the staff and I shall not add to this record by reading it.

With that I have concluded my statement, and I am ready to try to answer such questions as you or any member of the committee may have.

Thank you.

DOCUMENTS TO BE MADE PUBLIC

Senator CHURCH. All of the documents that have been made public that we have referred to in the course of these proceedings will be incorporated in appropriate fashion in the record and, finally, I should say that through the efforts of the SEC to make certain that laws of the United States are being properly obeyed, these matters have come to light. I think that the SEC deserves credit for its effort to enforce American law.

[The documents referred to are in the Appendix.]

To Mr. Millar and Mr. Willens I want to express the appreciation of the committee for your appearance and for your testimony today.

Senator CHURCH. The committee will meet at 10 o'clock tomorrow morning.

[Whereupon at 12:45 p.m. the subcommittee recessed to reconvene 10 a.m., Tuesday, June 10, 1975.]

POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

Northrop Corporation

TUESDAY, JUNE 10, 1975

**UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.**

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 4221, the Dirksen Senate Office Building, Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Clark, Case, and Percy.

Senator CHURCH. The hearing will please come to order.

Our witness this morning is Mr. Thomas V. Jones, who is president, chairman of the board, and chief executive officer of the Northrop Corp.

SWEARING OF WITNESS

Mr. Jones, would you please stand and be sworn?

Do you swear that all of the testimony you will give in these proceedings will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JONES. I do.

Senator CHURCH. You have a statement, Mr. Jones. If you would like to present your statement at this time, we will then proceed with questions.

TESTIMONY OF THOMAS V. JONES, PRESIDENT AND CHAIRMAN OF THE BOARD OF THE NORTHROP CORPORATION; ACCOMPANIED BY LEONARD S. JANOFSKY, ATTORNEY

Mr. JONES. My name is Thomas V. Jones. I am chairman of the board, president, and chief executive officer of the Northrop Corp. I have been president of Northrop since May 1959. I am appearing before you today to assist your committee in whatever way I can. I am accompanied by my counsel, Leonard S. Janofsky, of the law firm of Paul, Hastings, Janofsky and Walker.

As members of the Foreign Relations Committee, you are intimately aware that international relationships are complex and delicate, whether they involve matters of diplomacy or matters of business. The opportunities for error, or mistakes of judgment, or decisions which

in hindsight may appear questionable, are many. The opportunities for success, unfortunately, are many times fewer.

Our record as a company has been in great part one of success, and has brought credit to American industry and to the United States.

We also have made mistakes, as we reported last week in the interim report prepared by the executive committee of our board of directors, dealing with our relationships with certain consultants and sales agents abroad.

Yesterday, Mr. Richard W. Millar, the chairman of the executive committee of the board, appeared before you to provide further background and detail on those matters. I am confident that the findings of these investigations and certainly those that will emerge from your hearings will enable us to correct the mistakes we have made.

While I do not have full knowledge of all the details covered in the report and supporting material of our special audit or the interim report of the executive committee of the board, as the chief executive officer of the Northrop Corp., I take full responsibility for all the actions of the Northrop Corp.

I regret and apologize for any embarrassment that has been caused to the United States, and to those countries and individuals with whom we have had long and friendly relationships.

The mistakes we have made will not be repeated. I pledge to you here today that I personally will vigorously implement and carry out such policies and recommendations as may be adopted by our board of directors as a result of the executive committee's final report.

Further, I similarly pledge to support in every way that I can new regulations or perhaps new legislation that may be enacted as a consequence of these hearings. I make this commitment because of my belief that Northrop's conduct of its international business will reflect the highest credit to our shareholders, the concerned branches and agencies of the U.S. Government and our foreign customers and other foreign business associates.

The information which this committee and our executive committee is considering provides an insight into the conduct of international sales programs.

Each program of the Northrop Corp. is guided by a policy of which I feel you should be aware. We believe that a company, in order to meet its obligations to its customers, and therefore to its shareholders, must begin with an understanding of the real needs and interests of the customers it is trying to serve.

However, in each instance, our analysis and program planning must be predicated on the national interest and policy of the United States as they are known to us. We must act always in the interests of the United States, both by force of law as well as our responsibility as citizens of this country. Northrop Corp. has never sold nor entered competition for the sale of its aircraft or other programs in the absence of official assurance that it would serve the Nation's interests.

At the same time, we must seek to understand the needs and interests of the various countries who are our customers. For our U.S. personnel to establish relationships and begin to understand the military requirements as well as the social, economic, and industrial patterns of countries around the world would be prohibitively time consuming and expensive, even if it were possible.

The difficulty is inherent in the characteristics of our products and business. Our products are technology intensive. They normally require long leadtimes from initiation to production, as long as 5 to 8 years for aircraft. They must be responsive to a broad and complex set of user requirements. This means not only the defense needs of a country, but also its economic and industrial conditions. Sometimes this calls for us to conceive a program that will combine the defense, economic, and industrial needs and capabilities of two or three countries that are seeking to work together.

Obviously, this cannot be even attempted without the greatest degree of understanding. It is apparent, I am sure, that the success or failure depends on sound advice and counseling, and a constant awareness of these shifting relationships.

Therefore, we have sought the services of consultants who have specialized backgrounds, whether technical, legal, financial, or political, which enable them to provide to us an understanding of the **fundamental requirements** of those countries in order for us to better serve them. We do not believe in exporting simply what we think the customer needs. We seek instead to bring our resources and our technology to meet what he feels are his needs.

One of this Nation's most successful programs, our F-5 tactical fighter, is the product of just such an understanding. Before that aircraft was developed, we sought and received comments from many countries around the world. We heard from them; their concern over the rising cost and declining reliability of the sophisticated equipment they were being asked to introduce into their armed services.

Once we grasped and understood that very real worry—which only in the last few years has come to be recognized here in this country as well—we could devote our advanced technology and management techniques to producing a new concept in aircraft to meet those concerns.

From that idea, almost 20 years ago, evolved the F-5 program. It has been an effective instrument of U.S. foreign policy, through the military assistance program. It has subsequently been purchased by many countries with their own funds. This program is contributing some \$2 billion to our very critical balance of payments.

What is important here, I submit, is that this program emerged from the understanding that we were able to achieve only by calling upon the advice, counsel, and experience of consultants and others who were experts and authorities in many countries of the world.

We have similarly utilized the services of sales agents and commission agents in those countries where they appeared to be a necessary adjunct to our own marketing organization. In many cases, an established sales agent in the country is the most efficient means of achieving the necessary understanding of how to structure and present our programs.

On the whole, I believe this has been effective and in keeping with the laws and practices of the countries in which we were doing business.

I am proud to state that the Northrop Corp. has earned a reputation and recognition among its customers in this country and the world as a corporation that meets its responsibilities. We have a

record of building and delivering aircraft on time and within our contracted costs and meeting or exceeding all our performance guarantees. This corporate performance is of great importance to our customers, and is a fundamental reason for the continuing growth of our company. This is a record of which our employees, our shareholders, and our country can justifiably be proud.

I believe that is the fundamental strength of our company and that it will enable us to correct our past errors in a positive and constructive fashion.

I will try to answer your questions to the best of my knowledge and ability.

Thank you for your courtesy and attention.

THE PURPOSE OF SUBCOMMITTEE'S HEARINGS

Senator CHURCH. Thank you, Mr. Jones, for your statement.

I think that you recognize, certainly your statement reflects it, that it has never been the purpose nor has it been the practice of this committee to harass executives of large companies nor to single them out except as it may be necessary to lay the essential facts of a problem before the committee. And I think in fairness to Northrop we must recognize that particular problem we are inquiring into was not confined to Northrop alone and that, therefore, your case is to be regarded as a representative case of the problem that exists.

Would you agree with that statement?

Mr. JONES. I obviously cannot speak for other corporations but certainly we want to have our company examined if it can be helpful to this committee's work.

GERMAN PROCUREMENT PRACTICES

Senator CHURCH. Well, beginning on page 86 of the documents released by the subcommittee¹ you state that in 1966 you were, and I quote, "visited by a high official of the German Defense Department, accompanied by a member of the U.S. State Department, and they informed me that in investigations in Germany on the procurement practices had indicated that Northrop was put to a disadvantage over other American competitors through illegal activities and influence on the part of others. The purpose of the visit was to assure me that they had complete evidence of this having kept Northrop from obtaining business."

Now, do you recall who these two officials were?

GERMAN INVESTIGATION OF DEFENSE PROCUREMENT PRACTICES

Mr. JONES. The exact title I would have to get for you. I believe it was the public prosecutor who had to do with Der Spiegel scandals investigating defense procurement.

Senator CHURCH. The German who was investigating defense procurement, you say?

Mr. JONES. In Germany.

¹ See appendix, p. 393.

Senator CHURCH. In Germany?

Mr. JONES. Yes.

Senator CHURCH. Can you supply his name for the record?

Mr. JONES. I will.

Senator CHURCH. And who was the State Department representative?

Mr. JONES. I will have to supply that also.

[The information referred to follows:]

The German official was Mr. F. J. Rath, a member of the German Ministry of Defense. He was accompanied by Mr. Richard Fromsdorf, also of the Ministry of Defense. They were from the section of the German ministry that deals with industry relations. There was a third person with Mr. Rath and Mr. Fromsdorf by the name of Fred Bauer. I do not know his title, position or nationality. I was under the impression that he was from the State Department, so I had an inquiry made of that agency. I am told that the State Department has no record of a Fred Bauer. I, therefore, must assume he was not a member of the State Department and I do not know who he was.

Senator CHURCH. Further along in the same paragraph you state that—

During their visit they stated rather directly they were surprised that we were not more knowledgeable than we were in our relations with the German government in the procurement area, the implication being quite clear that our office in Germany was not doing its job.

That is the end of the quote.

Did you infer from this comment that these officials were advising you to emulate your competitors in the field of illegal activities and influences.

Mr. JONES. Not at all.

Senator CHURCH. What did you infer?

Mr. JONES. Well, our office at that time was aimed almost totally at the German military, lesser to the Defense Department. It was a direct fact the man that was in the office was an ex-officer of the German air force and so, therefore, we had a very good knowledge of the military requirement at that time and very close rapport, ability to present a product. But the other departments of government that were required to approve procurement and needed to understand what we were offering, we simply had no coverage of at all.

THE ROLE OF MR. DE FRANCIS IN WEST GERMANY

Senator CHURCH. Now, shortly after this visit you retained Mr. DeFrancis to advise you in your dealings with West Germany; is that correct?

Mr. JONES. That is correct.

Senator CHURCH. At the time that you retained him, was Mr. DeFrancis employed by the German Government?

Mr. JONES. I believe he had a relationship as counsel, yes, for the Embassy.

Senator CHURCH. Did you feel that there was any conflict in his being employed by you and the German Government?

Mr. JONES. Not from my point of view. He assured me he had asked the proper people in the German Government and had received approval from them.

Senator CHURCH. Over the next 8 years how frequently did you have occasion to speak to Mr. DeFrancis?

Mr. JONES. Oh, very frequently. I suppose once a week, many times once a day.

FAILURE TO INFORM NORTHPROP'S BOARD OF DIRECTORS

Senator CHURCH. Did you ever inform Northrop's board of directors that you had employed Mr. DeFrancis and in what capacity you had employed him?

Mr. JONES. I do not believe I informed them.

Senator CHURCH. Why not?

Mr. JONES. Well, our company conducts obviously much business and the hiring or procuring of goods and services was not a normal thing that we would present to our board at that time.

Senator CHURCH. Are you saying that the way Northrop employed foreign agents to promote the sale of aircraft to foreign governments was not the kind of matter that you took up with the board?

Mr. JONES. That is right, at that time. It is the kind of matter we are taking up with the board now, I can assure you. Our practice was to have the operating unit that had the responsibility for sale, the most directly involved in the picking of the agent.

Senator CHURCH. Would you explain how Northrop first entered into an agency relationship with the Economic Development Corporation, EDC?

Mr. JONES. Yes. And if I could take maybe 3 minutes—

Senator CHURCH. Yes; of course.

Mr. JONES. Because to understand EDC it requires it.

We were a California company at that time with maybe 400 million dollars' worth of business trying to sell in many countries. We had determined that we would try to enter the foreign market. We had a problem in qualifications of our personnel as well as financial. We could do a good job of presenting our product as to quality, schedule and cost, we had no problem taking our story of the quality of our product because that is the basis for any sale. It begins there. And without it you cannot and should not make a sale. But in the other area of being knowledgeable of the attitudes of other parts of Government, whether it is budgetary, whether it is policy, defense budget going down or going up, what other aspects that relate to the procurement of our product, we were not equipped well to do.

Now we had choices. One would be to establish an office in the country. It costs us roughly \$500,000 a year for an office to maintain and we find that many times this office is not the best way to obtain this kind of coverage, so we sought a way where a company of our size could have the ability to reach the other areas of government and our customers in an economical way yet effective way. So when Mr. DeFrancis was hired we actually closed our office in Germany down, increased our coverage from California on a product level, engineers made more trips, executives made more trips. At the same time I asked Mr. DeFrancis is there a way that we can provide coverage in these other areas, and it was at that time we first contemplated and his suggestion was many of these people who can be most helpful, rather than being employees of the company would rather work either as independent

businessmen or on a commission basis, and then early at that time I asked that we start considering such an arrangement.

It did not develop into EDC until 1969. We had an exchange of trying to work.

In 1969 when it looked like our F-5 line was going to go down we had nothing else to fill it. We were trying with our advanced airplane, the 530. We needed to extend that line. Maybe there was a chance of getting funding in Germany or other countries of Europe to the actual improvement of the airplane, and it was at that time we would need such people and help, and I asked Mr. DeFrancis if he could formulate a way of enabling us to hire this kind of help, bring to bear this kind of help. And it was worked out on a commission basis so that the cost to Northrop would be less, if he were not successful. If we were successful it could be paid for out of proceeds. That way we could afford broader coverage and better coverage than we could have on a hired basis.

TERMS OF AGREEMENT WITH EDC

Senator CHURCH. Under the terms of the agreement entered into with EDC—

Mr. JONES. Yes.

Senator CHURCH. Payments to EDC were mandatory in the case of the direct sales of the F-5 airplane from Northrop to foreign governments, regardless of what EDC had done to produce the sale. Is that not so?

Mr. JONES. That is the way it turned out.

Senator CHURCH. Well, that was the way the contract was written.

Mr. JONES. That is right.

THE PRINCIPLES OF EDC

Senator CHURCH. At the time the company entered into this relationship did you know who the principals of EDC were?

Mr. JONES. I did not know who they were. I did not know who they were going to be. EDC was an organization set up to be able to hire and to be able to bring to it those people who qualified in each country to do whatever job.

Senator CHURCH. Well, on page 246 of the documents, in a note from Northrup general counsel, you say, and I quote, "I don't recognize the signature on the EDC contract but I guess it is one of those European lawyers who was present."

Do you not find it strange that as the president of Northrup you apparently did not know the name of the president of the corporation to which you had committed 1½ percent of your company's receipts on all direct sales of the F-5 worldwide?

Mr. JONES. No; I was assured it was a corporation registered in Switzerland for the purpose of employing and bringing to bear principal activists who would not be the officers of the corporation, they merely were a mechanism to allow these people to be hired and paid. So that was not unusual.

Senator CHURCH. In other words, the actual agents who were hired to promote the sale of the F-5 aircraft were to be hired by this corporation. You would not even know who they were, would you, necessarily?

NORTHROP'S EXPECTATIONS OF THE EDC

Mr. JONES. Right. And that was a great weakness. At the time we set this up you have to remember the situation. I was expecting a relatively low number of sales of the F-5 extension. I was not expecting it to be a big thing. This was a mechanism that would allow us to pay individuals of high quality that would represent our interests.

In any new structure we have I will insist that ahead of any activity in any country that we approve of the individuals.

I counted on Mr. DeFrancis' judgment in this case.

Senator CHURCH. Well the document suggests that you knew just what you were doing, and I would think with a commitment on the part of the company to pay such a large potential fee to this corporation, that you understood fully the arrangement and why you were entering into it.

For instance, on page 231 of the documents you state in a letter to Crim, EDC is so structured that, and I quote, "it is able to advance the cause of Northrop in the sale of the International Fighter", not only on the basis of confidentiality but also uniquely independent of any Northrop connection. This principle provides a wide degree of flexibility in procuring the best people for the particular assignment at hand and, in many instances, enables the securing of persons who otherwise could not be directly involved for variant reasons with Northrop as such."

THE ARRANGEMENT

Now, did you not design this arrangement to provide an opportunity for Northrop to indirectly employ either Government officials, or highly placed private citizens of foreign governments who would be in position to influence the decision of their respective governments?

Mr. JONES. Certainly not government officials in the sense of someone in a procurement process or bribery or anything of that nature. It was to be able to have the services of individuals who liked to remain independent. Many of the people especially in Europe, of a level we are talking about, do not like to be employees of companies; they would rather keep their personal identity and would like to share on a percentage basis rather than take salary. They simply would not be interested in being part of our sales organization but they would be interested as independent businessmen to help us.

Senator CHURCH. That is a very strange arrangement. It certainly does not represent normal business practice, does it?

Mr. JONES. I think in Europe, especially, and other countries, asking for the services of businessmen who are engaged otherwise in business, bankers, or what have you, to help you, who understand the various levels of government, is not unusual.

Senator CHURCH. No; but that is not really what EDC was doing. It was not helping you to understand. You did not even know who the agents were. It was just getting you business, by methods which were not reported to you by people who were not known to you.

That is not a normal way of doing business. I can not believe it is normal in Europe. I know it is not normal in this country.

Mr. JONES. I am sorry, I do not—

Senator CHURCH. This is quite different than hiring an agent that informs you of the procedures, the practices, in a given country,

procurement practice. This is a corporation that was set up in such a way that you did not have to know what they were doing. You did not know who they were. All you knew was that if it sold F-5 aircraft you would pay them one and a half percent of the profit and one-half percent of the contract as a fee. That is not a normal way of doing business.

Mr. JONES. Can I clarify that?

Senator CHURCH. Yes.

THE CREATION OF EDC

Mr. JONES. You must understand that EDC was set up for a purpose. EDC was set up for a purpose.

Senator CASE. May I suggest your corporation created or asked for it to be created?

Mr. JONES. Yes, sir.

Senator CASE. You got lawyers to do that for you; is that it?

Mr. JONES. Mr. DeFrancis was a lawyer and I asked him to set it up so that it would provide an ability for us to hire, as required, and compensate on a commission basis individuals that could be helpful.

Senator CASE. EDC was a corporation under the laws of what?

Mr. JONES. Switzerland.

Senator CASE. And so it was incorporated under Swiss laws?

Mr. JONES. Yes, sir.

Senator CASE. And shares of stock were held by whom?

Mr. JONES. I can not give you the precise—

Senator CASE. What was your general understanding? How many shares were issued?

Mr. JONES. I do not know.

Senator CASE. Was it just a dummy? Was it just an entity created for various purposes of the kind that you have been talking about to the chairman.

Mr. JONES. In a sense it was, as I understand it to be, an office through which the contract could be held and the services would then be performed by individuals who would either be consultants to this organization, they could be owners—

Senator CASE. By this organization you mean, too, EDC?

Mr. JONES. Yes, sir. It was a way to be able to employ individuals on a contingent fee basis as they were required to be employed to make sales of our airplanes.

Senator CASE. I think I have a general idea. If I am wrong tell me. This would have been John Jones and not EDC?

Mr. JONES. Yes, sir.

Senator CASE. But you decided to have a corporation.

Did Northrop own the shares of stock?

Mr. JONES. No.

Senator CASE. Did you own any?

Mr. JONES. No.

Senator CASE. Did anybody in the company that you know of?

Mr. JONES. No, sir.

Senator CASE. Was it held by lawyers just as a little group of lawyers, the way some of us used to do when we were kids, in law offices with your dummy stockholders and officers, is that the kind of arrangement? Were there any substantial amounts of stock issued?

STOCK AMOUNTS IN EDC

Mr. JONES. I would have to get you the amount.

Senator CASE. What is your understanding?

Mr. JONES. My understanding is it was 50,000 Swiss francs was the incorporation—

Senator CASE. That is not much, is it?

Mr. JONES. No.

Senator CASE. So it was a nominal—

Mr. JONES. They did not have the assets.

DIRECTORS OF EDC

Senator CASE. Did they have directors?

Mr. JONES. Yes.

Senator CASE. Who were they?

Mr. JONES. Mr. Froriep and Mr. Isler and one other. I can provide that.

[The information referred to follows:]

Information in our files indicates that the owners of the stock of the corporation at the time of formation were Andreas Froriep, Rudolf Kleiner, and I. Isler.

Senator CASE. In general, it would be fair to describe this as merely an entity created by Northrop?

Mr. JONES. Yes, sir.

Senator CASE. For its convenience?

Mr. JONES. That is right.

Senator CASE. And really subject to its orders? I see.

So it did not have any substantial existence. That is what I am talking about.

Mr. JONES. No.

EDC'S FEE

Senator CASE. In the normal sense of a corporation doing business and making money for its stockholders and distributing dividends and engaging in business other than the business of acting as a person or an entity to procure advice and consultation and other services for which it received this flat fee based on performance, in effect.

Mr. JONES. It is not a flat fee. It is 1½ percent.

Senator CASE. I know.

Mr. JONES. It ended up at half a percent.

Senator CASE. Yes. And what did it do with its money?

Mr. JONES. Well, that would go to the individuals who were actually performing the work.

Senator CASE. That was pretty well understood then?

Mr. JONES. Yes.

Senator CASE. That whoever did the work would share in some way in it?

Mr. JONES. Absolutely. That was the purpose. It was a mechanism that would permit a team of individuals, two, three or four, in a country who would act for Northrop. The purpose of creating an environment that would allow the acceptance of our aircraft obviously after it had been selected from a quality schedule and cost point of view; but to make sure that it had an opportunity to pass through all of the other approvals that are required in Government.

PAYING THE EXPENSES OF EDC

Senator CASE. Who paid the expenses of this company?

Mr. JONES. To come out of their own pocket. We advanced the \$200,000 at formation.

Senator CASE. As an advance against future——

Senator CHURCH. How much additional money did you put into the corporation?

Mr. JONES. Well, just in the last few couple of months \$500,000.

Senator CHURCH. So Northrop has put \$700,000 into the corporation all told?

Mr. JONES. Yes, sir.

THE EARNINGS AND EXPENSES OF EDC

Senator CHURCH. And is it not true also that the 50,000 Swiss francs, which represented the stock in the formation of that corporation, has earned its stockholders over \$2 million?

Mr. JONES. No. You do not know the expenses that they have incurred.

Shall I say at the outset that this was set up for the purpose of having a mechanism to support sales of our F-5 airplane.

Now, the way it turned out——

Senator CASE. I commend you for not using the word vehicle.

Mr. JONES. And I felt that we had control through the fact that only the company could originate the contract and we had sole discretion on indirect sales. And the way it turned out, the chances of selling the Dash 21 became very small and did not happen, but when the F-5E was financed by the U.S. Government we changed the characteristic of EDC but it still served in that capacity.

I will say in retrospect we should have specified at the outset that before any effort started in any country, only after an approval by Northrop, not only of the nature of the effort but the individual who would be involved in that effort. In other words, approval ahead of time and with a reporting system, a reporting system that would be monthly or so and make a report back.

THE LACK OF A REPORTING SYSTEM

Senator CASE. You did not have that regularly?

Mr. JONES. No.

Senator CASE. You do not know where the money went in any case—in no case.

Mr. JONES. No. Well, I do not know the disposition of the funds from EDC, no.

Senator CASE. In any case, in any country, or on any contract?

Mr. JONES. That is right.

Senator CASE. You do not?

Senator CHURCH. That was the purpose, was it not?

Mr. JONES. No.

THE LOCKHEED ARRANGEMENT

Senator CHURCH. Was this whole arrangement not patterned after the Lockheed arrangement?

Mr. JONES. Well, Mr. DeFrancis kept speaking of it as a Lockheed arrangement.

Senator CHURCH. Yes.

Mr. JONES. I cannot vouch for really—

Mr. LEVINSON. You had a copy of the Lockheed contract?

Mr. JONES. Yes, sir.

Mr. LEVINSON. So you knew what the Lockheed arrangement was, and it was patterned after the Lockheed arrangement. It was not that DeFrancis said so, you had a contract to refer to.

Mr. JONES. That is right.

But how they had their reporting system, how they understood what they were doing, I cannot speak for. I am only speaking for Northrop. We have a contract.

Senator CHURCH. Your contract with EDC was patterned after the Lockheed contract?

Mr. JONES. Yes.

EDC'S CLAIMS IN COMMISSIONS

Senator CHURCH. Is it true that EDC claims \$3.1 million in commissions from the Northrop Co.? Or has it?

Mr. JONES. We have full power, under the contract, the discretionary power, to determine on indirect sales, which is those made through the U.S. Government, as to whether the commission is payable or not. We have not exercised that discretion and will not without absolute proof of value received and will investigate after the fact. I am saying it was a fault. It should have been before the fact. But after the fact, the quality of the work that they have done.

Senator CHURCH. But on the direct sales the contract stipulated that you paid the fee regardless of what they may or may not have done to promote the sale?

Mr. JONES. It was anticipated that we have no direct sales of F-5E, and that is why it was allowed to stand. But we have had some. And to that extent I admit it was a windfall.

Mr. LEVINSON. They claim in excess of \$3 million in commissions from EDC, do they not?

That is what EDC claims is owed to it on the basis of direct sales today?

Mr. JONES. No, no; direct sales, I think, in the neighborhood of \$1 million.

Senator CASE. How does EDC have a mind to make a claim, have a personality to make a claim? Who is it?

Mr. JONES. Froriep is the president. It is organized, it is a corporation under Swiss law, and they as an entity can make a claim. Now, we are bound to pay the direct sales but not the indirect.

THE NORTHROP/EDC RELATIONSHIPS

Senator CASE. We really want to find out what this thing is. It was created at your direction?

Mr. JONES. Yes, sir.

Senator CASE. For your purposes?

Mr. JONES. Yes, sir.

Senator CASE. It does not report to you what it does with the money but it makes demands on you.

Mr. JONES. The purpose of EDC again was to allow a mechanism to hire and compensate individuals in various countries to help augment.

NORTHROP'S DIRECT SALES EFFORTS

Senator CASE. Militarily, culturally, economically, politically, and et cetera. In other words, to get the business?

Mr. JONES. That is right. To complement the efforts of our marketing department who are especially good at selling the products but not necessarily selling the corporate name and the overall qualifications of the corporation. That is the sole reason for it.

Senator CASE. Now, did Mr. DeFrancis get paid outside of EDC?

Mr. JONES. Yes, sir; he was paid as a consultant to Northrop.

MR. DE FRANCIS' RESPONSIBILITIES TO NORTHROP

Senator CASE. So he was in effect directly responsible to you for his actions?

Mr. JONES. Yes, sir.

Senator CASE. He directed EDC, the activities of EDC?

Mr. JONES. It was. He would be my liaison, and this was the area where I think our organization was weakest, and I want to admit it. That is where it fell down. I believe it was not a good arrangement because there was not—I counted on Mr. DeFrancis, I felt that he was a good liaison between these individuals. I think at the present time it would have been much better, in fact, if we have them in the future. It will be only under strict definition of effort in each country and naming who the individuals are, but the contract mechanism can stay the same.

Senator CHURCH. Senator, may I just—

Senator CASE. Please go ahead.

THE PROPRIETY OF SETTING UP SUCH CORPORATIONS

Senator CHURCH. When you say if we have these corporations in the future, you will at this time interrupt your reporting requirements, supervise the actual service rendered more closely than you have in the past. Does that not really miss the question entirely? Is it not the question of propriety of setting up a corporation for the purpose of obscuring the connection that these corporations have with Northrop? There is no other reason for having an arrangement whereby you do not know who is being employed or what they are doing.

You say in your own documents that the purpose for this arrangement is to allow a corporation to engage people who do not want their connection with Northrop known. Is that right?

Mr. JONES. No; I do not think it is.

Senator CHURCH. I do not think it is right either.

Mr. JONES. I agree with that. You must know in many countries confidentiality in business arrangements has a higher value than it does in this country. As far as I am concerned, if someone will not wear the Northrop label when he is representing Northrop, I do not want him representing us. I would agree with you.

Senator CHURCH. I hope you might be able to put an end to these practices. Perhaps you can start a new trend in the business.

Mr. JONES. I want you to know we did not use EDC much. That is the point I am trying to make. It was set up to do something we did not do.

MR. DE FRANCIS' REPORTING TO NORTHROP

Mr. LEVINSON. Mr. Jones, on page 194 of the documents that the subcommittee released, you just said that you looked to DeFrancis to report to you. DeFrancis said that "Jones and Northrop are not looking for feedback from EDC but only the results that are accomplished. Hence, while DeFrancis is in regular contact with Jones and advising him on a number of matters, he has not reported back to him on EDC's operations."

He stated further that EDC does not report back to him. Thus he said it had been a long time since he had any contact with EDC or its representatives until Froriep's visit, being head of EDC, when he came to point out he was unhappy they had not as yet received any percentage payments.

This distinction that DeFrancis made—this is to Crim, the auditor, a memorandum of a conversation with DeFrancis—this distinction that DeFrancis made is to keep in mind, for as mentioned above, no one is looking for information back from EDC and consequently there is no continuing contact by anybody in the company with any of their representatives. The company is not interested in knowing how EDC operates and who they are in touch with, but can only measure the benefit of EDC by sales which occur, and then only indirectly because they do not know whether it is their own efforts or EDC's efforts that created the sales benefit.

MR. JONES' CONTACT WITH DR. FRORIEP

Let me ask you, have you personally been in direct contact since March of 1972 with Dr. Froriep, or anyone else who is a stockholder or executive of EDC, with respect to EDC's operations?

Mr. JONES. No.

Mr. LEVINSON. Have you written letters to EDC, advising them that you are pleased with what they are doing in one country as opposed to another country?

Mr. JONES. I did write a letter.

Mr. LEVINSON. A letter or letters?

Mr. JONES. I believe one.

Mr. LEVINSON. And do you know to whom this letter was addressed and when?

Mr. JONES. Dr. Froriep. I cannot give you the date right now. I think it was a year ago.

Mr. LEVINSON. This was not done through DeFrancis, this was done by you directly through EDC?

Mr. JONES. Yes, sir.

Mr. LEVINSON. Were you advising them you were satisfied with their activities in some countries and not satisfied in others?

Mr. JONES. It was hand-delivered. It was directed—it was hand-delivered by DeFrancis, I understand, to the people. They were concerned that about the fact that I had not settled on the commissions due on the indirect sales.

Now, I have to say this question of DeFrancis saying that he did not have a connection with us is a technical answer. The organization, EDC, and Froriep is an entity but individuals within EDC that have been named, Dr. Bach, for instance, and Benenum, were consulted by DeFrancis quite frequently.

EDC AND STOCKHOLDERS

Senator CASE. Could I just see if I understand this as far as you know what this EDC thing was. None of these people were stockholders who were retained as consultants?

Mr. JONES. I think they had in mind they could be stockholders. It was up to them, the arrangement within EDC, whether they were compensated by stock or as consultants.

Mr. LEVINSON. DeFrancis told you that the whole point was they were to be . . . stockholders.

Let me read to you from 234: "In this regard, the Board of Directors have agreed that the stock of the corporation is to be used as incentive bonus for foreign personnel that it retains to act on its behalf in addition to basic retainer salaries."

So the basic mechanism was that they are funded by Northrop. 11½ percent of the sales, on direct proceeds of the sales, and they used the stock to compensate the people who they contract, and you do not know who it is they contract or what the people they contract do?

Mr. JONES. I know Dr. Bach and Mr. Benenum, who I have recently seen and was told they were working in behalf of EDC and was told in writing, and I knew of Benenum's work. I knew his father and his very high quality company that represents other American companies. Dr. Bach, I knew by reputation. And they were given as an example of the quality of people that were working.

Senator CHURCH. The quality of people, or some of them. You do not know all of them?

Mr. JONES. No.

Senator CHURCH. You certainly did not know in detail what they were undertaking to do. You knew they were working on behalf of Northrop. Is that right?

Mr. JONES. That is right. I am saying from here on in I think that was a definite weakness.

EDC AND OTHER CUSTOMERS

Senator CASE. Did this company, as far as you know, have any other kind of customer in your general position in relation to it?

Mr. JONES. Not as a company. Well, I do know that several of the individuals—Benenum has other clients, and Bach—

Senator CASE. Some of these were competitors of yours, were they not, in the same general lines of business?

Mr. JONES. Not necessarily.

Senator CASE. Not necessarily. But some of them happened to be.

Mr. JONES. I do not know. Dr. Bach works for the Siemens Corp., who we are a partner with in Iran. We do not really compete with Siemens, the big German electronic firm, but he works for them. I do not know of a competition.

Senator CASE. Did any of these individuals whose names you have just mentioned, or the entity that were retained by EDC, happen to share in the stock bonus plan?

Mr. JONES. Of my personal firsthand knowledge, no. It was my understanding that they did, but I could be incorrect.

EDC'S ASSETS

Senator CASE. This company did not have any assets, did it?

Mr. JONES. No, other than the incorporating—

Senator CASE. Other than its ability to do business with and for you?

Mr. JONES. That is right. The contract was its assets.

Senator CASE. You never had any stock, either directly or through nominees, or anything like that? Nobody in this country connected with your company was ever a beneficial owner?

Mr. JONES. We expressly forbid the shares to be held by Americans once the F-5E was developed that was financed by the U.S. Government.

Senator CASE. What is that?

THE "REAL REASON" FOR FORMING EDC

Mr. JONES. When the Dash-21, which was the real reason for forming EDC, did not work, the F-5E, international fighter, was contracted for by the U.S. Government for Southeast Asia. When that happened we also had a commitment to try to offer it to other countries around the world. We expected only 325 total sales. That was the number originally contemplated and it turned out to be many times more than that.

Senator CASE. How did you figure on the percentage rate?

Mr. JONES. It followed the practice of several other service-type commissions that we learned about: 1½ percent for the first \$15 million, 1 percent for the next \$35 million, then three-quarters, then it ended up anything over, I think, \$70 million was a half percent. On a typical sale of 50 airplanes, \$100 million, which might take 5 years, EDC would get, say, \$1 million, \$200,000 a year, which incidentally is half the cost of an office in that country. It was the economics of having people willing to work on a commission basis rather than us have to spend money in the marketing department. This was one of the main reasons for setting up.

Senator CASE. Did officials of Northrop in this country have any authority to, or did you ever attempt to direct EDC to make payments of money?

Mr. JONES. No.

Senator CASE. Either to foreign persons or to return money to this country for purposes—

Mr. JONES. No, sir.

Senator CASE. You did not ever do that?

Mr. JONES. No, sir.

Senator CASE. Never attempted to?

Mr. JONES. No.

Senator CASE. Were you ever asked for more than the percentage rates established in the contract?

Mr. JONES. No, sir.

REDUCING PERCENTAGE RATES

Senator CASE. Did you ever try to reduce them on the ground in a particular case they were not earned?

Mr. JONES. That is our negotiation right now, that we have to sit down with them on the so-called discretionary, which is the largest portion.

Senator CASE. What is discretionary?

Mr. JONES. That means under the contract if a sale is made through the U.S. Government, foreign military sales, it was the sole discretion of Northrop whether a fee would be paid EDC.

In this case they would have to demonstrate, clearly demonstrate that services that were rendered were beneficial. If not, we would not pay them a commission.

IDENTIFICATION OF BRIBES AND KICKBACKS

Senator PERCY. Following that up, didn't they when they identified such a cost and expense, did they ever identify to you any moneys that were by our standards today improperly paid as bribes, kickbacks or whatever it may be?

Mr. JONES. No.

Senator PERCY. Did you ever suspect, following Senator Case's line of inquiry—did you ever suspect or believe that such payments were made and just did not want to know about them?

Mr. JONES. Absolutely not. I do not believe they were, as a matter of fact.

Senator PERCY. Did you, or did you not, ever inquire or ask your agents as to whether they had to, in order to obtain this business?

Mr. JONES. Well, in memoranda that preceded the formation of EDC, I was going over them, I expressly had said that there should be no violation of legal, ethical, moral or any practice in any country they were operating in, in the memorandum. I cannot recall whether this got into the contract.

LOCKHEED'S DENIAL

Senator PERCY. Could I ask one further question at this point relating to a question that went on before.

Lockheed, through a spokesman, as reported in the Washington Post this morning, denied that they operate in that way. They said:

We have never established or ran an EDC type operation, the type apparently operated by Northrop.

I cannot figure out why Northrop keeps comparing its foreign operations with Lockheed's.

Now, would you care to respond. They have been very specific in absolutely denying they had anything like this and yet this is a Lockheed-type operation, as it has been described to us.

Now, can you fill us in on the detail of this conflict between these two companies?

Mr. JONES. There has been so much conjecture in the press and otherwise, its very hard to be able to separate out conjecture from fact, and I believe I would disassociate myself from what I heard we had done, too.

I think the Lockheed idea came from two things. And this was somewhat of a conjecture. But I think in the sale of 104's they used Economic Development Corp. in Frankfurt for it. The contract was taken by that corporation and then passed on to Lockheed.

Also, I believe the form of the contract came from a commission agent agreement that Lockheed had perhaps for another purpose. You never know what the real objective of that contract may have been different from ours. I think the main Lockheed type keeps coming up.

LOCKHEED'S CONTRACT FORM

Mr. LEVINSON. Perhaps to clarify this, you have a copy of the documents which the subcommittee released. I would refer you to page 190 in which it states very explicitly:

We indicated to Mr. DeFrancis that we had copies of the signed agreement. He, DeFrancis, said, that this 9/22/69 agreement was identical to a Lockheed arrangement and that he and Mr. Jones had prepared it jointly. He showed us the Lockheed agreement from his files; it was a weak Xerox copy with pencil changes to reflect Northrop instead of Lockheed as one of the participants. He said that this was the Lockheed Starfighter (F-104) type arrangement. He talked at length about the Lockheed arrangement as being one that could change the "dismal experience" of Northrop in obtaining contracts overseas. He commented about the fact that up to that point in time the return on Northrop's effort was quite low in the amount of time and money expended. Thus, the Lockheed arrangement was considered as a solution to this experience. Throughout the conversations Mr. DeFrancis spoke highly of the Lockheed-type arrangement (which is what the CED contract is): and said he would recommend it for use in connection with the FY-17, if that goes into production.

There is nothing vague about it, it is very explicit.

Mr. JONES. The form of contract, yes, but I was trying to say you can have a contract with an organization but you can have an activity of the organization under that contract, and maybe they are alluding to the fact that this activity under this contract as they understand it from the press, they did not have anything like it. Mr. DeFrancis did say that to me and I accepted it. But I first hand cannot tell you how they operated under that contract. I was shown a contract which did have Lockheed on it and it had a form, but what I am trying to say, there is a difference between a contract and the way an operation may—

Senator PERCY. When you say a Lockheed-type arrangement, if you are taking a Xerox copy of an agreement, scratching out Lockheed and putting in Northrop, and conforming the thing exactly that same way, it seemed quite clear this is what you are setting—

Mr. JONES. The fee structure, the mechanism was identical.

NORTHROP'S INABILITY TO OBTAIN OVERSEAS CONTRACTS

Senator PERCY. Had you had a frustration in not being able prior to the 15 years overseas experience you had in not being able to really land overseas contracts and, this was impairing your business, and

that you as a management, wondered why and began to study the arrangements of some of those who had been more successful?

Mr. JONES. Precisely.

Senator PERCY. Of course, that would be the most natural possible thing to do.

Mr. JONES. Precisely.

USING THE LOCKHEED TECHNIQUE

Senator PERCY. What did your analysis show at the time as a management group—and I presume there are a number of you that studied it. Was it simply that they had the service, the knowhow, the experience abroad? Because it seems from the testimony and comments of some of these agents overseas they did not know an airplane from the nose to the tail. It was how to do business. It was a technique and experience that they had. How to get in. And is any part of that, in other words, it is not technical know-how and knowledge by that definition, it is really a technique of another kind, and that is really the essence of what we are trying to get at.

Did you in your analysis at the time discover that certain other companies were buying this business in a way that you simply could not get in, that you could not compete? And I am speaking, Mr. Jones, very frankly because I went against this for 25 years in handling the overseas business for our company and I was headup against it time after time. You simply could not get the business because someone else had a technique that was far better than the one we were operating under, and we simply could not get it, and it was very, very frustrating.

Was this the part of your consideration as you went along?

NORTHROP'S PROBLEMS OVERSEAS

Mr. JONES. I think I would like to answer that with a statement if I could.

We found that we could sell our product well. This was the frustrating part. We understood why we had the airplane, the communications system, we could communicate with their military, their technical levels on the basis of quality of product. We found really no problem. But when it came to understanding the acceptance, once the military said we would like this, the acceptance of the logic of that particular product in that particular country across the board, whether it is the economic ministers, foreign ministers, the business community, you find, especially in countries other than the United States, that the community seemed more closely knit. If it is a good idea, Northrop airplane is liked by the military and it is less expensive, but is thought well of that we have advanced concepts as a company, we understand ways in which our business methods can help. There was need for promotion of the company not the product per se. This is a good company for us, country "X" to do business with this type of thing, that is what was missing. That is what was missing. And you cannot call it, I do not think, buying a business, it is having the appreciation of our company as a whole, not just its product.

NORTHROP'S AGENT AGREEMENT WITH BRAZIL

Senator CHURCH. Mr. Jones, is it true that since 1967 Northrop has had an agent agreement with Nacional de Servicios de Aeronautica, known as NASA, in Brazil?

Mr. JONES. I do not know the details of that. We have had such an agency agreement but I cannot give you the dates.

Senator CHURCH. Is NASA headed by a Mr. TeDesco, a retired colonel of the Brazilian Air Force, who, according to documents in the Ernst & Ernst files, is a close friend of Brigadier Endivio, a commander of the 2d Tactical Air Force, and Brigadier Vinhias, top operations commander of the Brazilian Air Force?

Mr. JONES. I cannot from firsthand knowledge give you that.

THE TWO-PART AGREEMENT

Senator CHURCH. Well, now referring to the documents, they show that you have in fact entered into a contract, and that the contract has two parts. One, referred to as the agreement, provides for \$200,000 to NASA for services rendered. That is the standard consultant arrangement. Part two, referred to as the annex, provides for the payment to NASA of a commission based on actual Northrop sales in Brazil, thus making NASA your agent as well.

Now, have you no familiarity with this agreement involving as it does a \$200,000 fee plus a commission arrangement?

Mr. JONES. No, I do not.

Senator CHURCH. You do not know about this?

Mr. JONES. I do not know the details of it, no.

Senator CHURCH. Well, do you know whether you have such an arrangement with an agent in Brazil?

Mr. JONES. I know we have an arrangement with an agent in Brazil. TeDesco, I know, and Pinto, I believe, is the other.

Senator CHURCH. TeDesco is one of them?

Mr. JONES. Yes, sir, TeDesco is one and Pinto, I think, is the other partner.

Senator CHURCH. Well, now, on page 528 of the documents prepared by your auditors, a Northrop memorandum dated February 15, 1973, refers to the second part of this arrangement, and I quote from it—

Please note draft agreement is in two parts. The first five pages consist of a consultant agreement which can be shown by NASA to Brazil and tax authorities. The last two pages are an annex that contains the real meat of the compensation.

THE PURPOSE OF THE TWO-PART AGREEMENT

Was the purpose of this two-part agreement to avoid payment of taxes to Brazil on the more lucrative secret part of the agreement?

Mr. JONES. I know that this particular agreement is being investigated by the executive committee and I cannot answer your question because I do not have knowledge, but it is being looked into as to the correct necessity of, the propriety.

Senator CHURCH. Well, I do not know what other interpretation to place upon a sentence that speaks for itself. But when you complete your investigation of this matter will you see to it that the committee is supplied with that?

Mr. JONES. Absolutely.

Senator CHURCH. With the conclusions?

Mr. JONES. Absolutely.

[The information referred to follows:]

The report of the Executive Committee states: "Sr. TeDesco, the Director of NASA, provided the Committee with a signed statement that 'the agreement between NASA and Northrop was not formulated with any intent on the part of NASA to violate any applicable tax laws in any respect. In addition, Sr. TeDesco supplied documentation from NASA's Brazilian lawyer and accountant indicating that NASA had paid applicable Brazilian taxes on the fees it received from Northrop in 1974, and that it would pay applicable taxes on similar fees to be received in 1975.'"

NORTHROP'S SALE TO CHILE

Senator CHURCH. You recently made a \$41.2 million sale of F-5's to Chile. Included in the sale was a \$1.2/10 million agent fee paid to the Banex Corp. of Madrid.

Mr. JONES. I have no knowledge of that either.

Senator CHURCH. As president of the corporation—the amounts of money we are speaking of here are very sizeable—why would you not have knowledge of a \$1.2 million commission paid to an agent in Spain on a \$41.2 million sale to Chile?

Mr. JONES. Because in running a corporation as diversified as ours you must delegate responsibility, and that is what I have done. I am responsible for all actions. I do not want to imply that I am escaping responsibility. I simply do not have that knowledge.

Senator CHURCH. This is strange, because of the magnitude of the sale and the fact it was made only recently, this year, or late last year.

Mr. Levinson, do you have questions?

Senator PERCY. I yield to Senator Case first.

Senator CHURCH. Lets go the round of the Senators, then we will come back to Mr. Levinson.

Senator Case.

THE RECOMMENDATION OF MR. DE FRANCIS

Senator CASE. Who recommended Mr. DeFrancis to you?

Mr. JONES. He was recommended by the head of marketing of Northrop at that time, a Mr. Jim Holcomb, head of our eastern office, and he is presently—

Senator CASE. And whom did they get the recommendation from?

Mr. JONES. The brother-in-law of Mr. DeFrancis worked for Northrop. He heard this discussion of my concern that we had to reevaluate how we were approaching Germany. Our office was not working. How should we do it. And I gave the problem to the head of marketing and they were discussing it. And the brother-in-law of DeFrancis mentioned that he had a brother-in-law who was a counsel for the German Embassy, perhaps he could give insight and advice, and he was really brought to my attention not as a potential to be employed but someone who might give advice on what we should do.

U.S. GOVERNMENT INVOLVEMENT

Senator CASE. Did the State Department give you help in this matter—

Mr. JONES. No.

Senator CASE. Or any of our Government officials?

Mr. JONES. Help in what?

Senator CASE. Did any of our Government officials give your company any help in this regard?

Mr. JONES. In regard—

Senator CASE. Either in reporting as to the difficulty that you were having in regard to getting German business or/and selecting personnel who might be helpful in this matter?

Mr. JONES. No. I do not recall. I asked our corporate vice president of marketing to study the problem and come up with some recommended solutions. Whether he consulted with the State Department—he may have—it is very possible, I do not have knowledge that he did.

Senator CASE. You have no reason to believe that he did or did not?

Mr. JONES. I have no reason to conclude anything.

OTHER RECOMMENDATIONS

Senator CASE. And as far as recommendations from abroad go, you have described all that you know of that, the recommendations from general sources?

Mr. JONES. Well, recommendations of Mr. DeFrancis?

Senator CASE. Of any recommendations to your company as to how better to handle the matter?

Mr. JONES. It was that one visit that just touched on the fact that it would be wise if you understood better the breadth of the procurement practice in Germany rather than just the military.

Senator CASE. Would you just tell us again?

Mr. JONES. That was a visit by—and I will get the name—the public prosecutor I believe, investigating Defense procurement and I believe, someone from the State Department. But the statement was that they knew that we had an impediment to doing business, please let them know if I felt in any way we were being inhibited from doing business in Germany.

Senator CASE. They took the initiative in approaching your company?

Mr. JONES. Just to inform me. They said they thought highly of Northrop, wanted to do business with us, but mutually beneficial, and for me to let them know if I felt there was any inhibitions between our company and the German Government as far as procurement.

Senator CASE. As far as you know this was the beginning of the whole business?

Mr. JONES. That was what made me review our whole approach to selling Germany, yes.

Senator CASE. The general thing that you have summarized a longer statement in here about these people and, who were they again?

Mr. JONES. Some representative from the German Government accompanied by somebody from State, and I promised to get that for the record.

Senator CASE. Somebody from our State Department?

Mr. JONES. Yes.

Senator CASE. I see. How the dickens did this get started again: how did the German Government get steamed up to come to see you?

DER SPIEGEL AFFAIR

Mr. JONES. There was an in-depth investigation of German procurement practices as a result of an incident called the Der Spiegel incident. Maybe you will recall it. And it was where they felt there was improper influence and in the investigation it came out.

Senator CASE. This was a German investigation?

Mr. JONES. Yes.

Senator CASE. Go ahead.

Mr. JONES. And it was an indirect result of that that this visit occurred.

Senator CASE. So the German Government was inquiring or exploring the possibility of getting Northrop into the business with Germany?

Mr. JONES. Was informing us that as a result of their investigation they found there had been improper restrictions against Northrop doing business in Germany.

Senator CASE. Against Northrop specifically?

Mr. JONES. Yes, and they said I should be aware of it and that they had identified and felt that they had removed the problem but they wanted me to know, and if I found anything unusual in terms of our ability to sell in Germany I was to let them know. That was all that it was for.

Senator CASE. They had uncovered, as they saw it, some evidence that some German officials were blocking Northrop doing business?

Mr. JONES. Somebody. They did not identify who they were.

Senator CASE. Did they give you any help in this matter at all?

Mr. JONES. I think they told me that if I felt that in our offerings I felt we were not being listened to for any reason, I was to get in touch with their office. That was all. And I found subsequent to that there was no reason to do so. I could not detect any inhibition.

Senator CASE. You were not being inhibited. Their information was incorrect?

Mr. JONES. No. You do not know whether you were inhibited before the visit, but after the visit I especially watched. We were selling some electronic gear and some other things to the Germans, and I was very careful to see if our people felt they were pushed to one side, and they were not. It was a warning, in other words, that you will.

Senator CASE. You did not take any steps to remove this block or lessen the obstacles?

Mr. JONES. We reexamined the way we were doing business in Germany. This was the reason for really DeFrancis being hired, the direct result of having brought to my attention that our company was not understanding as completely as it should all elements.

DE FRANCIS' INVOLVEMENT WITH GERMAN OFFICIALS

Senator CASE. Did Mr. DeFrancis have anything to do with the German officials coming to see you?

Mr. JONES. I do not know.

Senator CASE. You do not know that he did or did not?

Mr. JONES. I do not know.

Senator CASE. Either way.

Mr. JONES. Either way.

Senator CASE. As a result, you did engage Mr. DeFrancis, but that was because of his connection with your company by marriage, or something like that.

Mr. JONES. It was not because of it. I was asked how did he come to our attention, and he came to the attention of our corporate vice president of marketing and the head of the Washington office through his brother-in-law who thought that Mr. DeFrancis might be helpful on advising. It was not as a job, because Mr. DeFrancis had knowledge of Germany through his relationship with the German Embassy.

Senator CASE. Mr. DeFrancis is an American?

Mr. JONES. Yes.

Senator CASE. Who had acquaintances in the German Embassy here?

Mr. JONES. Yes.

Senator CASE. He is not a local businessman?

Mr. JONES. No.

MR. DE FRANCIS' BACKGROUND

Senator CASE. Or businessman doing business on his own?

Would you describe his profession or his business?

Mr. JONES. He is a lawyer. He has a one- or two-man law office here in Washington specializing in international business.

Senator CASE. Did he give you some help as to how you should conduct things in Germany?

Mr. JONES. Yes.

Senator CASE. What sort of help? What sort of advice did he give you?

Mr. JONES. Once he was employed by Northrop as a consultant on international business, he did advise us with respect to the reality of a particular market. You hear that one country wants to buy an airplane; you do not know whether it is real or not. You could spend millions for years and have the market disappear. He was especially helpful in advising us on what he really felt the possibilities of a real purchase were or not.

Senator CASE. Where did he get his information?

Mr. JONES. Through his relationships in the German Government, his knowledge of the German Government. He represented, I believe, several German firms in the United States. He had a business relationship as a lawyer both with the Embassy but with other German business firms. So he was knowledgeable of the German business environment.

NORTHROP'S BUSINESS IN GERMANY

Senator CASE. Did you thereafter do a considerable amount of business in Germany?

Mr. JONES. We have almost done a lot of business in Germany. We did sell some T-38 trainers, but I cannot say that we have done a lot of business in Germany.

MR. DE FRANCIS' COMPENSATION

Senator CASE. What kind of arrangement did you have for compensation of Mr. DeFrancis?

Mr. JONES. Straight consulting fee.

Senator CASE. Percentage basis.

Mr. JONES. No, no.

Senator CASE. Did you pay expenses that he asked you to reimburse him for?

Mr. JONES. Yes; if they were like travel expenses and so forth.

Senator CASE. I do not mean his personal travel expenses; I mean expenses that he may have incurred in acquiring information.

Mr. JONES. Well, if he had to hire or enlist the services of others, if he got an approval from me under the terms of the contract, he would be compensated for paying other contracts.

Senator CASE. Did you have a contract in writing?

Mr. JONES. Yes.

Senator CASE. Is that in the record?

Mr. JONES. Yes.

Senator CASE. How much money did you pay Mr. DeFrancis over the years?

Mr. JONES. At the beginning, \$50,000 a year.

Senator CASE. That was a flat fee?

Mr. JONES. Yes.

Senator CASE. How much did you pay him in expenses?

Mr. JONES. I would have to look it up. It was not——

Senator CASE. It was not substantial.

Mr. JONES. No.

Senator CASE. None of that compensation was based upon a percentage of sales?

Mr. JONES. None of it was. He is presently under contract at \$100,000 a year. It was \$50,000 for a number of years, starting in, I believe, 1967.

Senator CASE. Did he render you bills indicating the amount of work he did?

Mr. JONES. I do not believe he reported on his activities, but he did report in detail on any expenses incurred.

Mr. LEVINSON. There is a statement that the auditors prepared in conjunction with Mr. DeFrancis, and Mr. DeFrancis was to confirm the total amount but has not yet confirmed it.

Senator CASE. As to the amounts paid, not as to the accounting for or rather the detailing of his services?

Mr. JONES. I do not remember; it has been a long time since I have made out legal bills. We used to resist giving the number of hours spent on certain jobs.

Senator CASE. Never give you any kind of details as to——

Mr. JONES. No.

Senator CASE [continuing]. As to how much time he spent on your business.

Mr. JONES. No; not a breakdown. But I was aware—the head-of our eastern office who worked with him closely was aware, and others in the company were aware. He worked only through Northrop. He was not like EDC where he was off alone. His work with Northrop was close when it was performed.

MR. DE FRANCIS' SERVICES

Senator CASE. In other words, his activities were not in any sense negotiating contracts, or that sort of thing, with third parties for Northrop?

Mr. JONES. No.

Senator CASE. Or attempting to?

Mr. JONES. Not really legal services is what you are asking. It was really not predominate legal services at all.

Senator CASE. It was not?

Mr. JONES. No. Performing as a consultant on international business.

PAYMENTS TO MR. BLANFORD

Senator CASE. But Mr. Blanford got some payments from him?

Mr. JONES. Yes, sir.

Senator CASE. Mr. Blanford?

Mr. JONES. Yes, sir.

Senator CASE. Do you remember how much in a rough way?

Mr. JONES. Well, I understand from secondhand knowledge from reading the results of the papers, I believe \$40,000.

Senator CASE. When was that?

Mr. JONES. I believe it is in the record. It is 2 or 3 years ago.

Senator CASE. Several years ago?

Mr. JONES. Yes, sir.

Senator CASE. For services of what nature?

Mr. JONES. Well, Russ Blanford when he was getting out of government did write me a letter, as he did others, saying he was opening up an office and simply saying he would be happy to provide services. I did not want to, because of budgetary and other reasons, take on another consultant in Washington. My people recommended it because Russ was a very able respected individual.

Senator CASE. He represented several other companies in your business, too, did he not?

Mr. JONES. I understand he did openly. It was a question of—

THE ROLE OF MR. DE FRANCIS IN THE HIRING OF RUSSELL BLANFORD

Senator CASE. Mr. DeFrancis is referred in the document as having told you that it was desirable for your protection to retain him. What does that mean?

Mr. JONES. I think you will have to ask Mr. DeFrancis.

Senator CASE. What did you understand it to mean?

Mr. JONES. I read it only in that document. The recommendation made by my people, when Russ Blanford wrote me the letter, I staffed it. The head of the eastern office said it would be very useful to have Russ work with us on a part-time basis. The head of marketing, I believe, did also. And Mr. DeFrancis thought so. I was concerned about having too many people consulting in Washington, and Frank said, well, I am going to take Russ on as my adviser working for me in connection with an airline, a charter airline, charter airline service, and Frank suggested to me perhaps if you would pick up part of Frank's fee he could keep his eyes open for Northrop and could help you from time to time, and I said fine. That is the end of my knowledge.

Senator CASE. This is a kind of funny business, is it not?

Mr. JONES. Why? I do not know why it is funny.

Senator CASE. Money could persuade Blanford to recommend your plane instead of a competitor's, or if lack of money would suggest that he would use his influence with this purchaser in which he had an interest, too.

Mr. JONES. I do not——

Senator CASE. What does protect mean?

Mr. JONES. I cannot explain it. Those are not my——

Mr. LEVINSON. Mr. DeFrancis explains it. Mr. DeFrancis said Mr. Blanford wanted to represent Northrop. He, DeFrancis, questioned how this could be done since Fairchild-Hiller was a competitor of Northrop in competition with the AX contract. As it turned out Fairchild got the AX contract, particularly, according to DeFrancis, because of Blanford's efforts. And Mr. DeFrancis said that he did not want this to happen to Northrop in connection with any of the other prospective contracts if Blanford maybe is involved. Apparently Blanford also represents one or two other aircraft companies. He mentioned Lockheed as one. In any case, Mr. DeFrancis said, in his judgment, he came to advise employing Blanford for Northrop's protection.

CASH PAYMENTS

Now the way the payments were made was in cash, was it not? He got \$40,000. This discrepancy as to whether he got \$60,000 or whether he got \$40,000, the money was delivered, hand delivered by Allen in cash packets of \$10,000. That is not just a question of Blanford representing companies. When DeFrancis said that he was buying protection for Northrop with Blanford, in effect what he was saying was he did not want Blanford to intervene against Northrop the way he had on behalf of Fairchild.

Is that not what is is all about?

Mr. JONES. If that is what DeFrancis says that was his reason for recommending Blanford. I had equal recommendations from our head of our Washington office, head of marketing, that Blanford's knowledge would be helpful to us. I did not consider that as a protection. I do not believe any one man can influence a source selection decision that way.

PAYMENT OF AGENTS

Senator CHURCH. Why did you pay them so much money?

Mr. JONES. Pay who so much money?

Senator CHURCH. Agents?

Senator CASE. \$40,000 in this case.

Mr. JONES. That was over a period, I think, of 5 years and Russ was—my understanding was that he was to keep his eyes open on something that should be brought to Northrop's attention. What it might be, it could be anything.

Senator CASE. That is what he was supposed to do in the future. That is the normal term of the engagement. But the reasons for the engagement was set out by Mr. DeFrancis to you, your protection.

Mr. JONES. That was DeFrancis' explanation to Mr. Crim. It was not, would not have been my stated reasons. You could interview the head of our Washington office. I have a memorandum from him. I

have had memorandums from someone else in my office strongly recommending that we take the part-time service of Russ Blanford.

Senator CASE. I can understand this thing gets filtered up and purified on the way. But the recommendation that this be for protection was a very bold statement by DeFrancis, and he was obviously a frank person, is obviously a frank person. This was not unusual though, engagement of an agent who was representing a competitor. This happened in your foreign business.

THE ROLE OF MR. GERRITSEN

What about Gerritsen?

Mr. JONES. Mr. whom?

Senator CASE. Gerritsen, the man you hired to further sales in the Netherlands who was the chief agent for Lockheed at the time in Holland.

Mr. JONES. We were asked because the Dutch had ordered our airplane, to establish an office in Holland. It would have cost us \$500,000 a year. I said, look, I cannot afford it. They said you had better get someone here who will make appointments for you, or someone we will get in. I asked Cortland Gross if it was all right.

Senator CASE. Who was that?

Mr. JONES. Cortland Gross of Lockheed if he would have any objection if Gerritsen would act. If the Dutch Government wanted to get in touch with me and get in touch with Gerritsen. And so for a number of years he had been really an individual who the Dutch Government could get in contact with or I could ask to get in touch with the Dutch Government. He was really almost a point of contact there.

Senator CASE. How much money did you pay him over the year?

Mr. JONES. \$10,000 a year.

Senator CASE. A year?

Mr. JONES. Yes, sir.

Senator CASE. Did he perform in that function as well?

Mr. JONES. He performed that function.

Senator CASE. Did he have expenses that he came to you—

Mr. JONES. I cannot recall of any time because he was really there to be able to arrange things through Northrop as required.

Senator CASE. He spoke about his brother in a press interview who works for Northrop. This brother died 4 years ago. Did you know him?

Mr. JONES. I did not know his brother.

Senator CASE. Do you know his name?

Mr. JONES. I do not know his name.

Senator CASE. Jan. J-A-N?

Mr. JONES. He died.

Senator CHURCH. Senator Percy.

Senator PERCY. I asked Senator Clark some time ago—it was some time ago—I would be happy to yield to you.

Senator CLARK. No problem at all.

Senator PERCY. Thank you very much indeed. I very much appreciate it.

Senator Jackson has asked that I get back up as quickly as I can on the drug hearings.

GERRITSEN'S ROLE WITH LOCKHEED AND NORTHROP

I would like to clarify the role of Mr. Gerritsen. Mr. Jones, do I understand that he worked for both Lockheed—and was retained by Northrop?

Mr. JONES. Yes.

Senator PERCY. Is there anything about not being able to serve two masters? Maybe they were completely different product lines and non-competitive and that is why you made this arrangement. It seems an odd arrangement to make with a competitor about whom you complained bitterly, I imagine internally, about not getting business and yet cooperate to that extent. I know that in business you have friendships among competitors. There is nothing wrong with that, but do you do it for the record? Would you want to make it clear it is a different product line, or did he ever represent you, give you advice, make appointments for competitive lines with Lockheed?

Mr. JONES. Let me answer it rather by saying Hans Gerritsen is an extremely well-respected person by certain of the top people in the Government of Holland, mainly because he was a leader of the resistance. He is one of these all-Dutch. I was going to say all-Americans. One of these types—beyond reproach type. And when they wanted us to set up an office in Holland, because they had purchased our airplane and they wanted that liaison, the cost would be so high, they said why don't you at least get somebody—if we have to get a message to Northrop fast—that we can give the problem to and it will get answered. And it was suggested that Gerritsen might be the one. They said someone like Hans Gerritsen.

I talked to Gross, who was president of Lockheed, and the agreement was he do nothing, he would not sell Northrop products, he would pass no information, he would purely be a post of communication. If I needed an appointment with the Defense Minister in Holland or someone I was—

Senator PERCY. But in my own past experiences, if I were looking for an agent in Holland, the last person I would think of would be Eastman Kodak.

Mr. JONES. He is not an agent.

Senator PERCY. To represent or make appointments for me. I would not imagine that I would do that.

Who in the Dutch Government asked you or suggested to you that you open an office there?

Mr. JONES. Well, I do not remember. Several said you should have a place where the government can get in touch with Northrop in the middle of the night, if necessary, because they had our equipment in their air force, 110 airplanes.

NORTHROP-DE FRANCIS RELATIONSHIP

Senator PERCY. I would like to refer, Mr. Jones, to a written response that you made to Mr. Crim of Ernst & Ernst with respect to your relationship with DeFrancis.

You said Mr. DeFrancis was initially retained to fill a requirement for better access to and knowledge about the policy levels within the German Government. The need for this coverage became clear in 1966.

Were you chief executive officer in 1966?

Mr. JONES. Yes, sir.

Senator PERCY. You were president and chief executive officer?

Mr. JONES. Yes, sir.

Senator PERCY. You stated, I was visited by high officials of the German defense department, accompanied by a member of the U.S. State Department. Could you identify those two people? Do you remember them?

Mr. JONES. I can't but I have offered to do that for the record.

ILLEGAL ACTIVITIES AND INFLUENCES

Senator PERCY. And they informed me that investigations in Germany on their procurement practices had indicated Northrop was at a disadvantage over other American competitors through illegal activities and influences on the part of others.

Had you previously testified as to what those illegal activities were?

Mr. JONES. No, I don't know what they were. I was being informed only.

Senator PERCY. These are your words, illegal activities, apparently.

Mr. JONES. This was what I was informed. It was part of the Der Spiegel scandal, you may recall, in defense procurement in Germany, and all they wanted to do was inform me. don't worry, we are not asking you to testify, we don't know whether you know, but we are saying we know that you have been, we are only telling you if in your activities in Germany you feel you are being discriminated against, please contact my office. This was the message I was given.

Senator PERCY. And you say of other American competitors, through illegal activities, I presume on their part.

Could you name the other American competitors that you were informed were performing illegal activities, preventing you from getting business?

Mr. JONES. I don't believe I was informed specifically. It really—

Senator PERCY. But you are well aware of who your betters were and you were aware who was getting business, and you were notified one of the reasons you weren't getting the business was because of illegal activities performed by your competitors.

NORTHROP'S COMPETITIONS

Can you tell us who the competitors are? You don't know what the illegal activities were. Do you suspect they were bribes? What other kind of illegal activities could they engage in to get business?

Mr. JONES. I suspect some form of favoritism and we were incidentally competing with many American firms in Germany. We were competing across the board, avionics, electronics.

Senator PERCY. How many American firms of any significance were competing against you in Germany? If it were a matter of your concern to your sales department did you pound the table, why can't we get this business from XYZ?

Mr. JONES. Well, there must have been four or five.

Senator PERCY. Could you name those four or five and which one principally was causing you trouble? And I don't want to infer that

then if you don't have firsthand knowledge that they engaged in——

Mr. JONES. I don't know.

Senator PERCY. Engaged in illegal activities. I would rather you not say.

Mr. JONES. I would rather——

Senator PERCY. I would rather have the inference on the record without ascertaining the fact. You have no firsthand knowledge at all or enough suspicion to be able to register that with us.

Mr. JONES. Right, I do not have that knowledge.

Senator PERCY. They said the purpose of—you said the purpose of the visit was to "assure me they had complete evidence of this keeping of Northrop from obtaining business."

Now, when they said they had complete evidence, that they advised you of, presumably, as to why you were not getting the business, and they were then saying stay in and get the business. Did they expand on that?

Mr. JONES. No; they really notified me that they knew and it was now removed. What they were really telling me, we found out and it is now removed. If you in the future find and restrictions please let us know. That was the whole reason for the visit.

THE IMPLICATIONS

Mr. LEVINSON. Your own statement says it was more than that. They said they were telling you that they were only informing you that the obstacle was removed. You said in your statement they were surprised that you didn't know more about how to do business in Germany. So it wasn't just they were telling you that obstacle was removed, they were telling you much more, explicitly. They were surprised you were not more knowledgeable in your relationship with the German Government in the procurement area—the implication being quite clear.

Mr. JANOFSKY. You mean they say there in there the implication——

Mr. LEVINSON. Quite clear.

Mr. JANOFSKY. Or is that your statement?

Mr. LEVINSON. This is Mr. Jones' statement?

Mr. JONES. The implications were clear?

Mr. LEVINSON. The implications are quite clear our office in Germany wasn't doing its job.

Mr. JONES. That is clear. What they were saying, it would be like: "I have been accused of this, you people don't know how to sell to the Navy, or you don't know how to sell to the Marine Corps."

Senator PERCY. I am presuming I am sitting in your chair and here is a representative of the State Department and the Defense Department of the West German Government coming into your office. In your own words, the purpose was to assure you that they had complete evidence of this keeping of Northrop from obtaining business. I can't imagine at that stage you wouldn't say: "Tell me more. What is happening, I have been blaming sales department, I have been blaming our engineering department, I have been blaming everyone here. What is it then that is causing us, other than the quality of our product, our ability to deliver and the price?"

Mr. JONES. They made it clear to me that there had been actions within the Government which had been restricting us, but those, whatever restrictions were, had been removed, that if I found any further evidence I was to bring it to their attention. Then, as an aside: "Apparently you do not have the knowledge across the board in German procurement that you should have."

THE STATE DEPARTMENT'S ROLE

Senator PERCY. Mr. Jones, I want to give you this opportunity because it may well be that at least the member of the State Department is still with the State Department. Is he still with the Department?

Mr. JONES. I can't tell you.

Senator PERCY. You will have to look back and see?

Mr. JONES. I don't want to identify someone.

Senator PERCY. Presumably he is available and would be able to come and testify.

I would like to give you the opportunity to tell us just as much as he would tell us, to the best of your own recollection, because we would like to get as much information as we can on the record right now about this matter.

Mr. JONES. This is really all I recall.

THE NORTHROP INTERIM REPORT

Senator PERCY. You said this morning that the Northrop management has not been asked to increase commissions on a given sale or make additional payments associated with the sale, as I understand it.

PAYMENTS TO SAUDI GENERALS

Could you explain the statement on page 22, then, of the interim report of your board of directors, and I quote that statement: "In addition, the auditors suggested that Northrop made two payments to TRIAD totaling \$450,000 following a request by Mr. Khashoggi for an increase in his fee for the purpose of making payments to two Saudi generals."

Those statements, the statement of this morning and that statement in this report, the interim report, seem to be in conflict.

Mr. JONES. Maybe I misunderstood the question. I thought you were referring to EDC when you asked if there were any requests for increased fee. Were you not? Or am I mistaken?

Senator PERCY. I don't know who asked the original request.

Mr. JANOFSKY. The original interrogation was with respect to EDC.

Mr. JONES. My answer was, "No," there weren't requests for increased fee on EDC.

Mr. JANOFSKY. This payment of \$450,000 by Mr. Khashoggi at request, who approved that payment?

Mr. JONES. I cannot tell you specifically within the organization how that approval occurred, but perhaps—

Senator PERCY. At any time did that decision come to you for approval?

Mr. JONES. It did not, specifically. But I think it is important—

Senator PERCY. Did it unspecifically?

Mr. JONES. Yes.

Senator PERCY. Could you expand on that?

Mr. JONES. I want to because this has been a very most troublesome thing to me personally of all, and I think it is a good thing to lay it right smack out on the table because I want to share this problem-dilemma of a chief executive officer appearing and getting partial knowledge and almost his mere presence causing a reaction.

I went to Saudi Arabia on October 8 or 9 of 1971 for my first visit to see Faisal and the top people, and when I arrived the first evening going to dinner to the home of the agent was the first time I ever met Khashoggi, by the way, and there was a debate going on between Mr. Khashoggi and several others in our company, and the gist of it, as I recall it firsthand, was that Khashoggi thought he should be paid more money, and the predominant thing I heard was that some other agent had been either hired or our people had been working with, when they told Khashoggi there was some obligation to the other agents, and if we didn't meet that obligation that our name would be very bad in Saudi Arabia because you don't want to be a company who is thought of not meeting its obligations.

Well, I was very disturbed in coming into something I knew absolutely nothing about. I told Mr. Khashoggi that I knew of nothing of this problem. I assured him that Northrop was a company that met its obligations, met its commitment, if indeed they were commitments, and I would have it looked into.

At that same time, a mention was made about a problem with a general who was either standing in the way of or was a problem with respect to the sale of airplanes.

And when this was brought to my attention, during this same meeting, I became really quite disturbed, and I said to our man, Mr. Gates, who was there, look this is not the kind of subject that should be brought up this way, it is very delicate, very sensitive: we have an agent to keep us from getting into these kinds of problems. And I meant not that the agent should bribe him, but saying no to a general or getting disentangled from one who is on the take is as delicate or more delicate as otherwise. I said we have got an agent to straighten out these matters, use him. And I asked him will you please get this taken care of satisfactorily.

That was the end of my involvement.

"NORTHROP MEETS ITS OBLIGATIONS"

Now, when I have seen the record of actions that followed, and I have just seen them in the last 2 days, by the way, in the material, quite properly we were, management wasn't shown to keep objectivity on the investigation. It is very apparent that that statement on my part, Northrop meets its obligations, even though I left Saudi Arabia and went to Iran, reverberated through the company, obligations which either were felt had been made by some or might have been made were construed to be—

Senator PERCY. Could you be quite precise exactly what you felt this obligation was. Was there a previous agent involved who was not paid commissions that he would have been if Mr. Khashoggi had nothing in?

Mr. JONES. Evidently. Remember, my knowledge only was at that moment, as I recall it, but I believe that my statement we meet our obligations in affect told our people to meet them, and they took that to include payment of the Saudi general.

Senator PERCY. When you are so precise about saving corporate money in Holland, getting into the thousands, or spending it in small amounts, to sort of brush this with a broad brush and not be very precise about what the nature of the obligation was, and to just say evidently, we had an obligation, which might involve a half million dollars, was there at any time mentioned the size of the obligation in—

Mr. JONES. That wasn't the way I said it. I said if there is an obligation we meet it, it is up to our people to investigate, and I asked Bob Gates to look into it. I didn't want, the first time in Saudi Arabia when he said that if you don't meet your obligations your name is bad—I said we do but not everybody in the company can make them and we will investigate them.

Senator PERCY. Were these previous agents outside the Government and absolutely independent agents, or were any of them Saudi generals, employees of the Government, or connected directly with the Government?

PRINCE KHALID

Mr. JONES. I believe the one that they had in mind when they discussed this was a Prince Khalid, who was a registered agent but a member of the royal family, but not a member of the Government.

Senator PERCY. Not a member of the Government, as I understand it, but a businessman in Saudia Arabia?

Mr. JONES. Yes. I want to make it clear the mistake I made, and it was my mistake. The minute I heard generals I should have said I want to see no payments made to the generals. I didn't make that statement and, therefore, I unintentionally—my use of the words "Northrop meets its obligations" was misinterpreted.

Senator PERCY. Did you sort of say it in a broad sense so that it would be intended to be subject to various types of interpretation? It implies you don't want to get into it, take care of it, but don't tell me about it.

Mr. JONES. That was not the intended meaning. It was a separate statement having to do with moneys that he felt we should pay to someone else, and the statement was made if you get the reputation for not meeting your commitments, it will be bad for you in Saudi Arabia. And I said we are a company that meets our commitments; we will investigate to see if there is one here or not. I didn't make a commitment, that is for sure.

THE \$450,000 PAYMENT

Senator PERCY. Would you clarify the amount of \$450,000 paid to the two Saudi generals as bribes?

Mr. JONES. I can only say that from what I have read; yes.

Senator PERCY. Were they taken as a tax deduction on the corporation, as a business expense on the corporation tax returns?

Mr. JONES. I can't answer that.

Senator PERCY. Has it not been a matter of concern to you that they might have been?

Mr. JONES. Of course.

Senator PERCY. Have you made an inquiry of your tax people as to whether they were taken?

Mr. JONES. I told our people the minute there were questions on any of these things, way back at the beginning, I said let's get after the tax aspects of these as quickly as possible.

Senator CHURCH. We have about half an hour left, and Senator Clark hasn't had an opportunity to ask questions.

We have several other subjects. I would like to finish up by 12:30.

Do you have further questions?

Senator PERCY. I have a few others and if we do have time after Senator Clark I will try to get back.

THE NEED FOR LEGISLATION

The one question I would like to ask, because it does pertain directly to the work of this Committee, which is not in a sense an investigating committee to investigate in principle, to establish the need for legislation. I would like to ask your judgment as to whether a regulation or law calling for public disclosure on all contributions made by U.S. multinational corporations, and disclosure of all dummy corporations created by multinationals for special, financial or tax purposes, would be in the public interest and would be supported by you in your individual capacity.

Mr. JONES. That is quite a broad statement.

Senator PERCY. We intend it to be sort of broad. We will try to get much more specific. You know the general area we are after.

Mr. JONES. I am trying to be very constructive. Certainly I think there would be value in a law that says that at the time an agent fee is paid, that this should be an item on the official contract or documentation. This is similar to the German law which is not against agents, it simply says he must be identified, and obviously they won't sign the contract if they don't like it. I think that is proper, is a good constructive thing to do. It will put us at a disadvantage; I will tell you that, with some of our allies, but I think that disadvantage we can overcome.

Senator PERCY. When the chief executive officer of Gulf testified, he indicated that a tremendous amount of pressure was put on American companies and they were told others are doing it and he knew that others were doing it, and you have to get in line to get this business.

He testified that, in his judgment, it would be a help and an assistance to multinationals in the United States if it was an illegal offense in this country, by our law, to make such contributions to be classified as bribes or shakedowns, and then we just simply were able to say, just as we are able to say, we can't accept a gift over \$50 value, so don't give it to us. If they do, we hand it back to them.

Mr. JONES. I agree with that 100 percent.

Senator PERCY. That makes it very clear not subject to any misinterpretation whatsoever.

Mr. JONES. I misunderstood your question.

Senator PERCY. It is a second one. This is a second provision making it illegal in this country to make any such payments.

Mr. JONES. I buy that. I think it would be very helpful with contributions or bribes. I think the agency one, in such countries like Japan, the trading companies provide a really valuable service, but it should be known, and I think it must be a matter of record.

Senator PERCY. I think it is very helpful and we appreciate it very much indeed.

Senator Clark, would you mind one question?

MR. JONES' PERSONAL INVOLVEMENT WITH AGENTS

In general principle I am amazed, Mr. Jones, so much that all of these contacts with overseas agents had to be made personally with you, that there was so little in writing, and there was nothing formalized about it. Heading a major corporation of this size, to approve payments in the detail that you did, I wondered why that was done. Why was it so essential that these things be approved by you personally rather than by some official of lesser responsibility in the company?

Mr. JONES. I think there is a misunderstanding. We must have hundreds of relationships and I probably approve three or four. It wasn't all of them. EDC—

Senator PERCY. It was not a common practice?

Mr. JONES. Not at all.

Senator PERCY. To approve these special payments and so—

Mr. JONES. No, I think it would be EDC, DeFrancis, which is broad, and maybe four or five. Normally they would report to others.

Senator PERCY. Thank you very much indeed.

Senator Clark, I very much appreciate that.

Senator CHURCH. Senator Clark.

THE USEFULNESS OF LEGISLATION

Senator CLARK. Mr. Jones, I just wanted to follow up on a couple of questions. The whole question of passing additional law, a new law, on disclosure, I certainly wouldn't be opposed to. I am curious whether that would do any good.

I noticed on page 2 of your testimony you say at the bottom of the page:

I similarly pledge to support in every way that I can new regulation or perhaps new legislation that would be enacted as a consequence of these hearings.

Now I am curious about why you think that would help. You knowingly violated Saudi Arabia law, you knowingly violated American law, and in the Nixon contribution I believe. Why would an additional law be more useful?

Mr. JONES. I am very glad you asked that question. I didn't knowingly violate the Saudi law. But in the case of the Nixon, I followed standard practice and the fact that for years everyone had been doing it was my reason. But that is not a right reason and it got me into

deep trouble. I think the same is true of others. This company should obey the law. If the law is not right, you should talk about changing, but I believe that I myself, I shouldn't ask anybody in this company to violate the law of this or any other country. I believe that firmly and——

Senator CLARK. Do you think you might be more apt to abide by a new law than the old one?

Mr. JONES. No, I don't know if a new law is required or a change. For instance, you heard we are competing around the world with many people. I think it is good for our Government to share our problem with us, really share it, and the Senators share it, as you are. And I think it gives us a protection in every case.

NORTHROP'S INTENTIONS

Senator CLARK. Let me go into a slightly different area again. Not knowing very much about corporate business I have to confess I am somewhat amazed at what might be identified as the irresponsibility that exists within corporations.

As I understand your testimony now, in answer to Senator Percy, no one ever really intended to bribe these Saudi generals, it all happened. I shouldn't say no one. Apparently Khashoggi did. You did not have that intention, as I understand your testimony, it occurred as a result of misinterpretation of a statement or phrase that you made about keeping your commitments.

Am I incorrect?

Mr. JONES. I think on my part that is correct.

Senator CLARK. And the rest of the bribery took place without ever having consulted you again?

Mr. JONES. That is right.

Senator CLARK. And these broad discussions within the company, I assume they were broad, several people knew about them, according to the record, payments were made on two separate occasions, and in none of that were you advised or in any way informed that this was going on?

Mr. JONES. Not until——

Senator CLARK. The company executives took that upon themselves?

Mr. JONES. Not until this investigation. But I have to say I accept responsibility for my statement, that we meet our obligations, without adding, and there shall be no money paid to these generals as having been taken by our people as my approval. I understand that now when I read the record.

PAYMENTS TO SAUDI GENERALS

Senator CLARK. It says here on page 459 of the Ernst & Ernst report, Gates' phone conversation on Saudi, and so forth.

It is now expected that Gonzalez will handle this matter on this trip. The recommendation made by Khashoggi is that Hashim is paid now an amount equal to approximately \$200 to \$250,000 and that he be assured of a 5-percent commission on phase three. It is assumed Khashoggi expects Northrop to make the first payment and that the commission on phase three will come out of the 15 percent commission payable to Khashoggi under Northrop contract with him.

Now Gates indicated Jones had no objection to this arrangement. In fact, he appeared to be favorably inclined toward it.

How do you interpret that?

Mr. JONES. I had no knowledge of that arrangement. All I can say is it was my statement that we meet our obligations and the fact I had knowledge of a problem with the generals taken in combination as I had no objection, meaning because I didn't state no, you shouldn't pay these generals, it meant if that was one of the solutions we will avail ourselves of it, and I will accept responsibility for a failure to explicitly—

Senator CLARK. I understand that. But really in that sense it seems to me nobody is responsible. You assume ultimate responsibility. You are saying in effect you didn't mean for it to happen but it happened and executives understand, you certainly could indicate that they didn't mean for it to happen. They just interpreted what you said to mean they ought to go ahead with the bribe. Isn't that correct?

Mr. JONES. That is what it sounds like. That is what I am saying, it is a sad thing.

WHO IS RESPONSIBLE?

Senator CLARK. It makes you wonder in a sense as these corporations get larger where responsibility really does lie, in answer to a number of questions here by the chairman and others.

No one really seems to know what is happening within a corporation. Millions of dollars go here or there, new companies are set up, the shareholders were not aware who the shareholders are. It seems to me after they get to be a certain size built-in irresponsibility develops.

Do you think that is a fair statement?

Mr. JONES. No, I don't think it is irresponsibility. I think the complexity of the situation lends itself to mistakes being made, and I think we have to improve and I think we have to correct and I intend to do that.

THE EDC

Senator CLARK. Let me ask just one question on EDC. I know that has been asked a good number of times yesterday and today, and I would like to try to answer the kind of summary question. Let me put it very bluntly.

It has been speculated on many occasions now that the EDC, this company that was set up, was a conduit for funds to flow from the Northrop Corporation to European decisionmakers for their help in getting Northrop contracts in this country. That is speculation.

Now there is speculation these decisionmakers were given stock or were allowed to purchase stock at a reasonable price as a kind of payoff.

Can you tell me as president of this company, of the Northrop Co., and as the principal person responsible for establishing EDC, that this is in fact categorically untrue, that there are no stockholders in decisionmaking positions in European governments?

Mr. JONES. There was no intent for them to be. I cannot categorically say so. We are in the process now of discussing with these people and I can assure you full disclosure is going to be a requirement for continuation or even honoring of our contracts.

Senator CLARK. You could not categorically say that there are no people in decisionmaking positions to decide on your contracts who actually hold stock in this company?

Mr. JONES. I do not believe to the fullest of my knowledge, and I would be very surprised and shocked if it were so, but I cannot firsthand tell you this.

THE DUCK HUNTING LODGE

Senator CLARK. Just a couple of other questions.

One along a very different line which examines the somewhat different technique employed by Northrop, as I understand it, in efforts to secure foreign military sales.

Does Northrop maintain a duck hunting lodge in eastern Maryland? Have you maintained that in the past?

Mr. JONES. Well, I think an old farm is leased for 3 months or so during the time the geese are flying, and they go out there and shoot the geese.

Senator CLARK. As I understand it, there are some 144 occasions between now, 1971 and 1973, when Northrop used this to entertain Defense Department officials, military and civilian. Is that true?

Mr. JONES. You have the same knowledge I have.

Senator CLARK. One hundred forty-four occasions?

Mr. JONES. I don't know the number. I don't know the number.

Senator CLARK. But this was regularly done, at any rate?

Mr. JONES. Yes; the facilities were made available. I was assured in most cases or all cases they either provided their own ammunition and these kind of things.

Senator CLARK. Now, were these activities related in any way to Northrop's efforts to obtain a contract for building the F-17 fighter plane, in your judgment, or was it just done totally unrelated?

Mr. JONES. I think it was totally done in the spirit of close relationship.

Senator CLARK. There was no intention to influence or to curry favor with them?

Mr. JONES. No different than the country club or any activities you find yourself with your customers or with Congress or—

Senator CLARK. Would you be opposed to supplying this committee with a list of people who were so entertained?

Mr. JONES. If such a list existed.

Senator CLARK. If such a list exists you would be willing to do that?

Mr. JONES. I had better be careful. I don't understand. This has been a very sensitive subject and I want to honor whatever I should honor and I don't know what it is at this point.

Senator CLARK. What is that answer?

Mr. JONES. My answer is that I don't know enough about that to make that commitment to you. My objective in being here is to be fully responsive and helpful to you.

Mr. JANOFSKY. It seems to me, Senator, these are types of things that have been handled in executive session and we will be glad to do that.

Senator CLARK. You don't want to talk about this publicly?

Mr. JANOFSKY. It is not a matter of not talking about it publicly, but it seems to me there have been discussions by your own staff with other people about handling some of these matters in executive session. It just seems to me that is the proper way to approach it. I am saying we are not—

Senator CLARK. If you say——

Mr. JANOFSKY. No; it doesn't mean that at all. In the executive session, we may decide to talk about it publicly.

Senator CLARK. I don't think that is your decision to make. I think it is the committee's decision to make.

Mr. JANOFSKY. I understand that thoroughly.

REDSKIN TICKETS

Senator CLARK. Is it true that Northrop Corp. purchases tickets to Redskin games for Defense Department personnel?

Mr. JONES. I don't know.

Senator CLARK. You are not aware of that?

Mr. JONES. No.

KERMIT ROOSEVELT ASSOCIATES

Senator CLARK. The last question that I have is about Mr. Kermit Roosevelt.

Now, when did Northrop first enter into a consultant agreement with Kermit Roosevelt Associates Inc.?

Mr. JONES. I believe it was our Page Communication Engineers, and I will have to get the exact date.

Senator CLARK. Would you supply that for the record?

Mr. JONES. 1965 or something like that.

[The information referred to follows:]

The first consulting agreement with Kermit Roosevelt Associates, Inc., was dated December 8, 1964. It was with our subsidiary, Page Communications Engineers.

Senator CLARK. Why was he selected as a consultant?

Mr. JONES. Well, he was selected by Page because of his knowledge of the Middle Eastern part of the world.

Senator CLARK. He had a connection, as I recall, with the Shah of Iran. Are you familiar with his relationship?

Mr. JONES. Yes; he is a friend and admired by the Shah. Yes; that is right.

Senator CLARK. Why did you believe that Mr. Roosevelt could persuade the Shah to sell the Chancellor of West Germany on the Northrop plane? I noticed in the report, page 333, you have discussed that.

What was the basis of that belief?

Mr. JONES. Well, that really is not correct if I can correct that.

I met the Shah myself in 1962 when he came to the Pacific coast, and I had known him for 3 years before I knew Kermit Roosevelt. I had many audiences with the Shah before. It was just that the Shah was very much interested in an airplane to replace the F-4, and our P-530 he was interested in. The Germans happened to be interested at the same time. And knowing that the Chancellor and Shah were going to have a meeting, I felt it was important to apprise the Shah of the progress of the plane in anticipation of the visit with the Chancellor.

Because Roosevelt was already going down there, I gave him as a message carrier. He was not a salesman. He was carrying a message to His Majesty.

Senator CLARK. Just to carry a message to him?

Mr. JONES. That is really what he was doing.

Senator CLARK. How much money was Kermit Roosevelt Associates Inc. paid over the course of its contract with Northrop?

Mr. JONES. I will have to get it for you. It is \$75,000 now; they started at \$15,000. My guess is half of that times 10 years. Maybe \$400,000. We will find it for you.

[The information referred to follows:]

The total amount of consultant fees paid to Kermit Roosevelt Associates from fiscal year 7/31/65 through 6/30/75 is \$437,864.

INVOLVEMENT OF CIA

Senator CLARK. On page 22 of the documents, Mr. Roosevelt says, quote, "My friends in the CIA are also keeping an eye on things."

One page 295, a little earlier, he says, "I have talked to a friend at my old place of employment who seems to be somehow or other involved in various discussions relating to the decision he reports." End of quote.

Was one function performed by Kermit Roosevelt for Northrop that of the funneling of information gathered by the CIA into hands of Northrop? Is that what you interpret that to mean?

Mr. JONES. No; not at all.

Mr. LEWIS. How about vice versa?

Mr. JONES. I don't know.

Senator CLARK. You don't know whether your company provided any information to the CIA?

Mr. JONES. I have no knowledge. Our people are debriefed on trips. I have been debriefed, I can tell you. Information flowing from our company to the CIA, I cannot answer that.

Senator CLARK. Are you aware of any previous connection between any Northrop agents, aside from Mr. Roosevelt, and any intelligence activities in the U.S. Government?

Mr. JONES. Not to my knowledge.

Senator CLARK. That you, Mr. Chairman.

Senator CHURCH. Senator Clark.

I think we are just about finished, Mr. Jones.

PAYMENTS OF AGENTS

One question keeps recurring to me. You have indicated that earlier in response to a question of mine that concealment of agents, whatever the device may be, whether it is the corporate device or some other, is not good practice. I agree.

I am wondering whether it is good practice to base the fee to be paid to an agent on the size of the contract.

Now, it is clear that that has been done. It may be the general practice. But in some cases, you do pay an agent a fee. The contract is made; he gets a definite fee. You can judge his services from year to year on the basis of that contractual arrangement. If he is worth his fee, he continues to get it. If he isn't, you retain some other agent.

When you have a contingency fee, then you build in an incentive for wrongdoing, particularly if the agent is loosely connected with the company and is given a wide field in which to operate without any rigid reporting requirement.

The inducement is built in; the device is such that an agent is strongly provided with an incentive to get as large a contract as is possible. The larger the contract, the bigger the fee. When you are dealing with contracts of this character, the fee can build up into a multimillion-dollar fee.

Do you think that is a good practice? Isn't an open invitation to overreaching an impropriety?

Mr. JONES. Well, human nature and I guess the laws of economics would say that a person that had a larger amount to gain would risk more in making the gains. Is that what you are saying?

Senator CHURCH. Yes.

Mr. JONES. I think that is true. It is really the question of the temptation is there, obviously, I agree with you. But taking the case of a Japanese trading company, as an example, and just as an example our T-38 airplane the Japanese looked at for 4 years. I never would have tried to sell it to Japan. I couldn't understand whether they were going to do it or not. The trading company believed they could. They spent I don't know how much effort, and they didn't sell it. It probably cost them \$2 or \$3 million. That would be a market that I, Northrop, would not have reached; and thought of in U.S. terms, it would be jobs not created. But the willingness of somebody to venture with you with his own effort is a plus, too. So if there are good people, and they must be good, they must be excellent. If you get them venturing with you, you will enter markets that you cannot afford to enter. This is the value of an agent. It is a pure economic one.

Senator CHURCH. It is not just a question of good people, though clearly they are to be obtained, and if available.

It is also a question of the arrangement that is made with them.

And if the arrangement is such as to maximize the return to them, they make the contract, and the bigger they make it, the better it is for them, then there is a clear incentive, perhaps, even for the best of people, there is a great temptation of overreaching and engaging in improper conduct, because the price is so large, the fee is so big. It is the same problem that we have in dealing with the criminal underworld. They are trying to control drugs. The price is so high, the inducement is so great, that a whole system of corruption develops. And I am afraid that we have had sufficient evidence, not just from Northrop but from other companies, to suggest a system of corruption is developing here, and unless these techniques are changed, unless the contractual relationships with foreign agents are based on fixed fees, rather than contingency fees, this problem is not going to be eradicated.

Are there any other questions? We have only 5 or 6 more minutes before we conclude.

Mr. JONES. I agree with that, and in fact we always prefer to deal with a country that has a procurement system that doesn't require an agent. We feel more comfortable.

The Shah has shifted to that. And the minute he shifted, we terminated our agent agreement.

THE PROBLEMS TO OTHER GOVERNMENTS

Senator CHURCH. I am hopeful that these hearings may have as one of their effects a signaling of the problem in such form that governments will take defensive action on their own.

Mr. JONES. I hope so.

Senator CHURCH. And thus reduce the problem.

I would like to request for the record that the other questions we have not had time to ask this morning, that they be responded to in writing so that the record may be completed, and apropos of Senator Clark's request, I do believe that you did not have advance notice that this subject would be raised.

Mr. JANOFSKY. That is right.

Senator CHURCH. And therefore, I would in accordance with the normal procedures of the committee, suggest that you make available the names that Senator Clark has requested. If you have those names in your possession, make a written list available to the committee and supply it to the committee in that form.

Mr. JANOFSKY. That was the point of my concern.

Senator CHURCH. I understand. You put your finger on it, Senator.

Very well. If there are no further questions, the hearing is adjourned.

[The information referred to follows:]

LAW OFFICES OF
PAUL, HASTINGS, JANOFSKY & WALKER,
Los Angeles, Calif., August 25, 1975.

JEROME I. LEVINSON, Esq.,
Counsel, Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate, Washington, D.C.

DEAR MR. LEVINSON: In accordance with the commitment of my client, Mr. Jones, at the hearing held before the Subcommittee on June 10, 1975, to respond in writing to questions that there was not time enough to ask on the occasion of the hearing (Tr. p. 182), I enclose herewith copy of such questions as received from your office and Mr. Jones' responses thereto.

As to the matter of furnishing the Subcommittee with a list of Department of Defense and military personnel who were entertained at Northrop's Maryland hunting facility, a separate letter is being forwarded by the company addressing this request which you should receive shortly.

I believe that this now completes the record as far as Mr. Jones is concerned.

Sincerely,

LEONARD S. JANOFSKY.

Question 1. Who was No. 1 referred to in a cable from General Galland? What was his position?

Answer. I believe it was the chief of the German Air Force.

Question 2. Is it proposed to continue the relationship with Siemens in Iran despite the fact that Siemens has refused to provide information to the Ernst & Ernst Investigators on payments Northrop made to Siemens' Swiss bank account for use in that country, possibly for bribes?

Answer. This is a matter to be determined by the Board of Directors.

Question 3. Is it fair to the shareholders of Northrop to oblige them to pay this amount because without Siemens' cooperation, these sums transferred cannot be deducted from taxes?

Answer. It is fair provided that the services provided by the payment of these funds yield a net gain to the corporation. In this case Siemens refused to give what they considered to be proprietary marketing information to the consortium partners who are also strong competitors on other projects in the same market area.

Question 4. Is it proposed to continue with Khashoggi despite the unanswered question as to whether he passed on the money to the two Saudi generals? Can business be done in such an ambiguous atmosphere?

Answer. This is a matter to be determined by the Board of Directors.

Question 5. Were you aware of the possible conflict of interest in the case of John Russ Blandford, to whom Mr. DeFrancis was making payments?

Answer. We knew Blandford, who was a member of a law firm, served other clients. However, we did not intend to utilize his services in areas where there was a potential for conflict of interest from our viewpoint, nor did we expect

to receive from him information relating to proprietary matters or trade secrets of his other clients.

Question 6. Were you aware that Johannes Gerritsen, the Dutchman you hired to further sales in the Netherlands, was at that time the chief agent of the Lockheed Corp. in that country and registered as such?

Answer. Yes. However, it was determined that there were no specific products in the area of his service for Northrop that were in conflict with his Lockheed representation. By the nature of his representation of Lockheed, he felt and I felt there was no conflict with the specific duties he was going to perform for Northrop.

Question 7. Is there no problem in Mr. Khashoggi representing Lockheed at the same time as Northrop? How about Mr. Weisbrod? Can these men represent two competing airplane companies?

Answer. There could have been, but the question was faced openly in discussions with Mr. Khashoggi and Lockheed. Several of our proposals provided for the use of Lockheed Services Company in some areas. In the case of Weisbrod, we felt there was no conflict of interest.

Question 8. Who is Eddy Hess? What does he do for Northrop?

Answer. Eddy Hess is a private citizen of Germany. He acted under the terms of Mr. DeFrancis' contract, which stated that he could employ other personnel to assist him provided it was approved in advance. He visited various members of the German aircraft industry and government so as to be able to provide information—to be useful in developing marketing plans for Germany.

Question 9. Who is Theo Bennahum? What does he do for Northrop?

Answer. Theo Bennahum was a French citizen who had a consulting and agent organization that represents companies around the world. There is no contractual relationship between Northrop and Bennahum. Theo Bennahum is the father of Michael Bennahum, who has a relationship with EDC.

Question 10. Did you know Mr. Gerritsen's brother?

Answer. No.

Question 11. Do you know his name?

Answer. I have checked, and his name is Johannes.

Question 12. Do you resent that Mr. Gerritsen worked for both companies? (Lockheed and Northrop)

Answer. No. As I responded in my answer to a previous question, it was determined that there were no specific products in the area of his service for Northrop that were in conflict with his Lockheed representation and, especially since he was a sales representative for Lockheed but not a sales representative for Northrop. By the nature of his representation of Lockheed, he felt and I felt there was no conflict with the specific duties he was going to perform for Northrop.

Question 13. You have testified that Mr. Gerritsen was recommended to you by several people in the highest levels of Dutch Government. Who were these highest levels?

Answer. I do not recall.

Question 14. Did they receive payments or favors for their help?

Answer. No.

Question 15. You have testified that Gerritsen was hired to provide confidential communications between the highest levels in Dutch Government and the President of the Northrop Corporation. Who were these highest levels? Were they the same people who recommended Mr. Gerritsen?

Answer. I did not so testify in my appearance before the Committee. In a statement to Ernst & Ernst dated 20 August 1974 I stated Gerritsen was to act as a trusted communications channel between the highest levels in the Dutch Government and the President of Northrop Corporation. The highest levels were persons in the Defense Ministry and the Dutch Air Force whose names I do not recall. I do not recall if they were the same people who recommended Mr. Gerritsen.

Question 16. What kind of confidential communications did Mr. Gerritsen provide?

Answer. As an example, I was concerned that the reputation of Northrop and its product be maintained. To this end I asked him to keep his ears open for any complaints concerning our F-5 airplane being operated by the Dutch Air Force and to notify me of any problem areas he heard of.

Question 17. Are you aware that the highest levels in Dutch Government who provided those confidential communications might have violated Dutch law?

Answer. No.

Question 18. Were they paid for their help by anyone who might have had or have a relationship with the Northrup Company, like Mr. Savy or Mr. Froriep of the Economic and Development Corporation?

Answer. Not to my knowledge.

Question 19. You testified that high government officials in Holland in 1967 suggested you to establish an office in Amsterdam to facilitate verbal communications. Who are these government officials?

Answer. I do not recall.

Question 20. Did they receive payments or favors of any kind for their help?

Answer. No.

Question 21. In memorandum of September 27, 1971, Mr. Parsons tells you that a certain Mr. H. L. Visser was recommended as a consultant by Major General Bosch. Who is this Mr. Visser?

Answer. I do not know.

Question 22. Do you know Maj. Gen. Bosch?

Answer. I had a casual, professional relationship with Gen. Bosch. He was an officer in the Dutch Air Force.

Question 23. How could Major General Bosch recommend someone to the Northrop Co.?

Answer. He simply did it. It is not unusual to receive recommendations from individuals who are aware of our company and who know of people in directly or indirectly related fields.

Question 24. Was Major General Bosch paid by Northrop for his help or was he paid through other channels?

Answer. To my knowledge Major General Bosch received no payments of any kind by or on behalf of Northrop.

Question 25. How would you describe Major General Bosch's relation with Northrop?

Answer. It was a casual, professional relationship.

Question 26. What is your relationship with Prince Bernhard?

Answer. We are friends of long standing.

Question 27. How often do you or did you meet the Prince?

Answer. We meet socially once or twice a year. I also meet him occasionally at Fokker-VFW Board of Directors meetings.

Question 28. Do you feel it appropriate to discuss business with the Prince?

Answer. I do not feel it is appropriate to discuss Dutch procurement business with the Prince.

Question 29. Has the Prince been of any help to Northrop?

Answer. The Prince has been of help to me in my gaining a better understanding of Europe.

Question 30. Did the Prince give you any advice in selling the YF-17 Cobra?

Answer. He did not give me any advice in selling the YF-17 Cobra.

Question 31. Did he receive payments or favors of any kind for his involvement?

Answer. No.

Question 32. The memorandum states "although the company has excellent top-level relationships in Holland . . ." who are these top-level relationships; what kind of help did they provide; were they paid directly or indirectly paid by Northrop?

Answer. "Top-level relationships" are Dutch Air Force officers whom we have known in connection with our N-156, the F-5 airplane, and working with the Dutch on the concept that led to the P-530. It is the practice of any aerospace company to hold discussions on an informal, non-contractual basis with Air Forces and other individuals with knowledge of aircraft operations during the period the company is trying to formulate its basic concepts and designing the resulting aircraft. This is necessary to understand the individual long-range requirements of each country in order to be able to work ahead of time. Dutch Air Force officers were not paid directly or indirectly by Northrop.

Question 33. It was through Mr. DeFrancis' consultations and direct efforts that the German Government became interested in participation in supporting (the Cobra program) as a matter of their own national policy, the smaller countries of NATO, culminating in a letter offer (sensitive) from the German minister to the Dutch minister that the German Government would contribute \$50-million to the first phase of the development of the 530 (Cobra). Why was this offer made to the Dutch minister?

Answer. I do not know.

Question 34. And why not to Belgian, Danish or Norwegian ministers?

Answer. I do not know.

Question 35. Who was the Dutch minister?

Answer. I do not recall.

Question 36. What was his relationship with Northrop?

Answer. None.

Question 37. Did he receive payments or favors from the company, directly or indirectly?

Answer. No.

Question 38. Why did the offer fall through in 1971?

Answer. I do not know. I conjectured that it was because the Dutch Government fell.

Question 39. Who in the new Dutch Government in 1971 wished Germany to reinstitute its offer?

Answer. I do not know.

Question 40. Did you or a representative of Northrop have any contact with the Dutch Government or its officials prior to this request to reinstitute its offer?

Answer. I do not recall.

Question 41. What kind of commitments were to be made by Mr. Savy, for which you gave your authorization?

Answer. The authorization was for an advance in anticipation that he would be required in the event of a go ahead in the 530 sales program to employ persons to help him in monitoring how we were succeeding in our sales efforts.

Question 42. Who were involved in the Netherlands operation?

Answer. To my knowledge there was no Netherlands operation.

Question 43. The \$26,000—was it used for payoffs or other kind of payments?

Answer. Not to my knowledge.

Question 44. Are you aware of why Savy did not need all the money requested?

Answer. Because the heavy sales efforts on the 530 did not occur at that time.

Question 45. Moreover, why did you authorize a payment of \$60,000 to Savy and \$60,000 to Euradvice, while Savy just asked for \$60,000 to be transferred to Savy's Euradvice?

Answer. Because according to Allen's memorandum of 28 February 1972 he requested an equivalent amount.

Question 46. In the documents (288f) there is a letter to one Antoine Leenhards, who was president of the Crown Cork Co. in Belgium offering him a consultancy contract which you signed. Can you explain how it was that an official of a company in a wholly different line of business was approached this way?

Answer. Mr. Leenhards is a businessman of high reputation. He represents many businesses in Europe. Among others he is reported to be Chairman of Crown Cork in Europe.

Question 47. Did he accept?

Answer. Yes.

Question 48. What did he do for Northrop?

Answer. He gave us advice and consultation with respect to presenting our aircraft to the Belgian Government.

Question 49. In the documents there is information about a telephone call you had from Mr. Savy regarding a Belgian parliamentarian who, in return for "insurance" was prepared to attack Defense Minister Paul Vanden Boeynants for favoring the Mirage contract. Did you agree to Mr. Savy making such a payment?

Answer. No.

Question 50. Who was the parliamentarian?

Answer. I do not know.

Question 51. Did he make the attack?

Answer. No.

Question 52. Mr. Jones, it was you who initiated the creation of a network of agents and consultants to promote the sale of Northrop products abroad, was it not?

Answer. Northrop's use of overseas consultants and agents evolved over a long period of time and it would be incorrect to say that I "initiated the creation of a network of agents and consultants."

Question 53. Why did you feel that the hiring of such agents, whose services are quite costly, was necessary?

Answer. We felt it was necessary because the corporation itself did not possess sufficient local knowledge to properly represent interests of the corporation. We felt hiring of foreign agents and consultants was a more efficient and less expensive way than trying to provide the necessary services from California.

Question 54. You personally arranged for the hiring of many of these agents, did you not? I refer to Pg. 85 of the documents which reads as follows: "Frank J. DeFrancis: employed by Thomas V. Jones on August 29, 1967. J. Gerritsen: employed by Thomas V. Jones on August 7, 1967. General Stehlin: employed by T. V. Jones on April 30, 1964. H. Weisbrod: employed by Thomas V. Jones on April 3, 1968. Economic and Development Corporation: employed by Thomas V. Jones on March 22, 1971."

Answer. No. I did not arrange for the hiring of many agents. Out of a total of several hundreds I hired only the five above enumerated and possibly a very few others.

Question 55. Most of these agents reported directly to you, did they not?

Answer. No. Only the five individuals or organizations above enumerated.

Question 56. Considering the frequency with which some of the agents reported—e.g., DeFrancis once or twice a week, sometimes daily for as much as an hour—you must have fairly detailed knowledge of their activities. Yet, the company's interim report suggests no one in Northrop had more than a vague and general knowledge of the agents' activities. How do you explain this apparent discrepancy?

Answer. The auditors' interim report does so suggest. I feel I and others had substantial knowledge of the activities of DeFrancis, Gerritsen and Stehlin. As to Weisbrod, I felt I observed the favorable results of his activities. *As to EDC, there was little activity and I relied on DeFrancis.*

Question 57. In reference to P. 94, it is noteworthy that, with the exception of General Stehlin, all of your agents reported verbally only to Northrop. Considering the vital importance of these sales involved and the large sums to be expended by Northrop for the agents' services, wouldn't it have been normal and prudent management procedures to require regular written reports instead? Why was this informal verbal method used instead?

Answer. This procedure has been changed.

Question 58. Does Northrop have foreign agents who report to other divisions, or to other executives in the company?

Answer. Yes, the vast majority of our agents and consultants report directly to a division and subsidiary executives and corporate executives other than myself.

Question 59. Let me read to you from an internal memo from Northrop's Associate General Counsel, R. B. Watts, Jr., dated May 4, 1978, p. 158:

"All consulting agreements originated by the President's Office or that involve consultants who report directly to the President shall automatically be treated as sensitive."

Why were these agency matters considered particularly sensitive while agents contracts with other officers were apparently handled as a routine matter?

Answer. I do not know why Mr. Watts made that statement.

Question 60. Mr. Jones, I wish to quote from a report of your interview with the Ernst & Ernst investigators at P. 72 of the documents:

"Jones stated that he had asked that (EDC) be formed, and that he had participated quite heavily in the structure of the company."

Yesterday, Mr. Millar testified that it is impossible to determine who are the shareholders of EDC and how EDC disbursed its funds. Why did you structure EDC in a way which hid its activities and ownership from your own company?

Answer. The structure was not intended to hide its activities and ownership from the company. This general area was covered in my public testimony before the Committee.

Question 61. On page 181 of the documents, Mr. DeFrancis refers to his considerable work in 1971-72 in the area of the "offset or balance of payments situation," which apparently involved a proposed German agreement to provide money for development of Northrop's P-530 (which later became the YF-17). Just what did this considerable work entail?

Answer. Mr. DeFrancis had specific knowledge with respect to the manner in which offset packages were worked out between the United States Government and Germany. His work was concentrated on our working up a proposal for our own Government which would satisfy the requirements of the Germans.

Question 62. Did you or any other Northrop executive discuss these offset arrangements with U.S. Government officials? With whom?

Answer. Yes, among others were Secretary of the Treasury Connally, Undersecretary of State Department for Economic Affairs Casey, Secretary of the Air Force Seamans and Strauss Leon, Director, Military Export Sales, International Business Assistance, of the Commerce Department.

Question 63. What was the position of the U.S. Embassy in Bonn on this matter?

Answer. I am not aware of its position.

Question 64. What position did DOD take?

Answer. I do not know.

Question 65. What happened to the proposed arrangement?

Answer. It was never implemented.

Question 66. On page 189, Mr. DeFrancis refers to having asked for \$60,000 to pay Dr. Bach and Dr. Eddy Hess. Was Dr. Bach a member of the Bundestag at the time he earned this fee?

Answer. I do not know.

Question 67. What services did he perform?

Answer. I do not recall.

Question 68. Who is Dr. Eddy Hess?

Answer. Dr. Hess is a private citizen of Germany, I believe, formerly associated with the German Embassy in Washington.

Question 69. What services did he perform?

Answer. I do not recall.

Question 70. Were their activities related to the offset arrangement?

Answer. I cannot recall.

Question 71. Mr. Jones, you told Ernst & Ernst investigators that to your knowledge, no Northrop agent ever "provided funds to third parties at the direction of the Northrop Corporation." These responses were apparently accepted by the investigators as evidence that such payments were in fact not made. However, the agent DeFrancis, is quoted by Mr. Crim on Pg. 187 of the documents as stating that although he had not made any payments at Northrop's direction, "he did make certain cash payments which he cleared with T. V. Jones," and that he, "kept a type of cash fund which 'everyone occasionally needs to have' to pay people 'of the type who would not want their name associated with Northrup.'" He added that he did not consider getting your concurrence in these payments as "making them at Northrup's direction." To whom were these payments by DeFrancis in which you concurred made?

Answer. I believe the intent of the question asked by Ernst & Ernst was whether any illegal payments were provided to third parties at the direction of Northrop Corporation, to which question I responded in the negative. I know of no cash payments by DeFrancis other than the cash provided by Mr. Allen which Mr. DeFrancis states was for the purpose of paying Mr. Blanford.

Question 72. What was the purpose of these payments?

Answer. See answer to last question.

Question 73. Did other agents make payments to third parties with your concurrence? To whom?

Answer. No.

Question 74. Who is Mr. Gerritsen, and when was he first retained as a consultant by Northrop?

Answer. Mr. Gerritsen was first retained as a consultant by Northrop in 1967. Gerritsen is a well-known and outstanding individual in Holland. He comes from a fine Dutch family, and before World War II was a member of the Olympic swimming team and the Dutch national soccer team. During the War, he was active in the Dutch underground. He was captured by the Germans and was used in medical experiments which affected his health. He is a leader in an organization that preserves the close association between the Dutch underground leaders.

Question 75. What office does Mr. Gerritsen hold in Holland; what are his business connections?

Answer. He acts as representative for several big companies, I believe. I am not sure of each one and his business connection with them. It was my understanding that Mr. Gerritsen, his brother J. Gerritsen (who lived in Switzerland), I believe his son and perhaps others had some sort of business relationship in which they represented the interests of various companies doing business in Europe.

Question 76. How much money has been paid to Mr. Gerritsen by Northrop over the course of his contract?

Answer. From 1967 to 30 June 1975—\$77,500.

Question 77. On page 284 of the documents, you say, "While Gerritsen's level of activity on behalf of Northrop has not been high, when he has been used either by Northrop or by the Dutch Government, it has been in extremely important

and sensitive situations that have been highly beneficial to our business-relationship in Holland." Could you describe for the Subcommittee what some of those "important and sensitive situations" were?

Answer. As an example, I was concerned that the reputation of Northrop and its product be maintained. To this end I asked him to keep his ears open for any complaints concerning our F-5 airplane being operated by the Dutch Air Force and to notify me of any problem areas he heard of.

Question 78. Who is Mr. Meuser? What does or did he do for Northrop?

Answer. Mr. Meuser obtained his Masters degree at the Swiss Federal Institute of Technology. He was with KLM and had wartime service in the RAF. He is a person with many years of experience in the aeronautical industry. He was never paid by Northrop but as a personal friend of mine has provided advice and counsel.

Question 79. Why was Mr. Gerritsen paid on a Swiss bank account?

Answer. At his request.

Question 80. Did Prince Bernhard recommend Mr. Gerritsen to you?

Answer. I do not recall. I know they were friends and that Prince Bernhard had a high regard for Mr. Gerritsen.

Question 81. Did any Dutch Government officials, military personnel or members of Parliament receive travel expenses, payments, other favors or gifts directly or indirectly from Northrop?

Answer. Not to my knowledge. However, I have just been advised by our Aircraft Division that four members of the Dutch Parliament had their transportation expenses paid to visit our Hawthorne plant, and on another occasion a group of Dutch Air Force officers and two civilians from the National Research Laboratory, which is a government agency of the Netherlands, were entertained in connection with their visit to our plant.

Question 82. In your statement as transcribed by Ward & Paul, on p. 105, you state that the arrangement which you discussed with Mr. DeFrancis for making use of independent businessmen or people paid on a commission basis "did not develop into Economic & Development Corporation (EDO) until 1969." What arrangements applied prior to that date which "developed" into EDO?

Answer. None.

Question 83. On p. 104 of your statement you indicate that "early at that time" you started "considering such an arrangement". What other arrangements did you consider, were any of them in fact put into practice? What were they?

Answer. Augmenting our current sales organization in foreign countries and establishing new offices to obtain broader coverage. This approach was not followed.

Question 84. On p. 119 you state that "at the present time" and "in the future" liaison will be "on a strict definition of the effort in each country," and "naming who the individuals are but the contract mechanism can stay the same." Can we draw from that statement the inference that the existing arrangement with EDO as regards individuals who already may be acting as consultants or shareholders of EDO will be maintained?

Answer. The arrangement with EDC has been terminated.

Question 85. On p. 128 you state that Lockheed "used the Economic Development Corporation in Frankfurt" for sales of F-104 starfighter. You state further, "the contract was taken by that corporation and then passed on to Lockheed." This information is not available in this country. How do you know this?

Answer. I do not have firsthand knowledge of this but at the time I believed from reports from various people whose names I do not recall that this was the case.

Question 86. Did you learn of it directly or indirectly from any former or present Lockheed employee or agent?

Answer. Not to my recollection.

Question 87. Is Lockheed's use of the EDC in Frankfurt the reason that Mr. DeFrancis wrote to you of his satisfaction at being able to take the name Economic & Development Corporation for the Northrop entity he was setting up in Switzerland?

Answer. I do not know.

Question 88. You also stated on p. 128 that the form of the "contract came from a commission agent agreement that Lockheed had, perhaps for another purpose." By what means were you aware of the form of the contract which Lockheed may have had with its Commission agents?

Answer. We had a copy of the contract but I do not recall how we obtained it.

Question 89. In your testimony you stated on p. 153 "when they wanted us to

set up an office in Holland because they had purchased our airplane" and "they wanted that liaison," "they said why don't you at least get somebody." "... and it was suggested that Gerritsen might be the one. They said someone like Hans Gerritsen." You also said that you do not remember who in the Dutch Government you were discussing these matters with. Has your memory been refreshed? Have you been able to determine who it was that suggested that Northrop open an office in Holland? Who? Do you remember who it was who suggested "someone like Hans Gerritsen"? Who?

Answer. I do not recall who suggested Northrop open an office in Holland, nor who suggested Gerritsen.

NORTHROP CORP.,
Los Angeles, Calif., August 26, 1975.

HON. JEROME I. LEVINSON,
Counsel, Subcommittee on Multinational Corporations, Committee on Foreign Relations, U.S. Senate, Washington, D.C.

DEAR MR. LEVINSON: During the testimony of Mr. Thomas V. Jones, President of Northrop Corporation, before the Senate Subcommittee on Multinational Corporations on June 10, 1975, Senator Church requested the company, through Mr. Jones, to supply a full list of DOD and military personnel who had attended a hunting facility leased by Northrop on the Maryland Eastern Shore. Because Mr. Jones was unfamiliar with this matter, he made no commitment to provide such data.

Nevertheless, the Company reviewed its records in an attempt to determine the source of information referred to in Section II of the Auditors' Report which contained a breakdown (but not the names) of persons apparently attending the hunting facility from DOD, from other executive branch agencies, and from the Congress (including staff). We discovered that the Auditors' breakdown was compiled solely from invitation lists and lists of persons designated to receive game shot by those in attendance at the facility. These lists include some persons who never attended the facility or otherwise received corporate hospitality from Northrop. We were unable, however, to construct an authoritative list of persons who attended, and it appears that no such lists were maintained in our files.

For this reason, Mr. Janofsky's August 4 letter did not contain the material requested by Senator Church in reference to the hunting facility. Northrop believes it would be unfair to the individuals named in the invitation lists to release those lists before an effort was made to determine whether in fact such person actually attended the hunting facility. In this connection, Northrop learned in June that the Department of Defense, through its Office of General Counsel, was conducting an investigation of this matter. We understand that this investigation is designed to ascertain not only the names of all persons attending Northrop's leased hunting facility but also under what circumstances. At the request of the DOD General Counsel, on June 13 Northrop submitted the invitation lists to DOD to assist in its investigation.

We understand that preliminary investigation has confirmed that many persons named in the Northrop lists never attended the hunting facility. We have also been informed that each of the services is involved in investigating the activities of its respective personnel and that the Department has now made substantial progress toward completion of its investigation.

Northrop supplied its lists to DOD with a request that they be treated as confidential pending the outcome of its investigation, consistent with the provisions of the Freedom of Information Act. We hope that the Subcommittee will honor the principles of fairness and due process which underlie this request. In any event, in light of the ongoing investigation, we believe that further inquiry by the Subcommittee regarding this matter should be made directly to the Department of Defense. With the results of the DOD investigation, the Subcommittee can consider this matter based upon facts which the Company does not possess.

Sincerely yours,

ROBERT B. WATTS, Jr.,
Acting General Counsel.

LIST OF INDIVIDUALS ATTENDING THE HUNTING FACILITY LEASED
BY NORTHROP - SUPPLIED DEPARTMENT OF STATE

HUNTING SEASON 1971-1972

<u>October 29-30</u>	<u>No. Geese Delivered</u>	<u>No. Killed</u>
Sen. Howard Cannon	3	
Allen Cannon	3	
Cong. Bill Minshall	2	
Mr. Earl Morgan	2	
Mr. Tom Scott	2	
Mr. Gordon Nease	2	
Mr. Chet Sobsey	3	
Mr. Art. Kuby	2	
Mr. Len Kilgore		
Adm. Blackie Wienel		
Adm. F.A. Bardshar		
Gen. Bert Spivey	3	
Lt. Gen. Bob Dixon	2	
Lt. Gen. Pete Crow	2	
Maj. Gen. Clyde Box		
Mr. John Tutko		
Mr. Geo. Douglas		
Jim Holcombe		
Mason Sheehan		
W. Wilson		
Stan Semmer		
John Allison		
	<u>26</u>	<u>36</u>

Dec. 11, 1970 @ 11:15 AM PST

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HUNTING SEASON 1971-1972

<u>October 4-5-6</u>	<u>Dinner 4</u>	<u>Hunt 5</u>	<u>DIN</u>	<u>Hunt 6</u>	
Cong. Orin McInt	X	X	X	X	
Cong. Bob Sikes	X ?	X ?		X	
1950 Niles/SON		X	X	X	3 runs
Lt. Gen. A. J. Russell	X	X	X	X	2/10/72
Maj. Gen. Ernie Cragg	X	X	X	X	4 "
Capt. Ted Hill	X	X	X	X	3 runs
Mr. Mike Rexroad	X &	X	X	X	
Tommy Knowels			X	X	4 "
Jim Hackler				X	4 " 1
Maj. Gen. Ken Schultz			X	X	50 P.O.
Jim Holcomby	X	X	X	X	
Wimpy Wilson	X	X	X	X	
Macon Shahan	X	X	X	X	
	7-8	12			

? Depending on what the congress is doing on Friday 5, October.

ALMA TERN

HUNTING SEASON 1971-1972

OCTOBER 29-30		QUARTERS	
		Holly Point	Eastern Manor Motel
Sen. Howard Cannon	3	X	<i>In Chamber?</i>
Allen Cannon	3		
Sen. Garry Goldwater		X	
Cong. Bob Sikes		X	
Earl Morgan			
Cong. Bill Minshall		X	
Mr. Tom Scott	(2)		X
Mr. Gordon Nease	(2)		X
Mr. Chet Sobsey	3		X
Mr. Arthur Kuhl	(2)		X
Mr. Len Kilgore	3		X
VADM. Blackie Weinel			X
VADM F. A. Bardshaw			X
Sec. Glass - Poor		X	
Gen. Bert Spivy	3		X
Lt. Gen. Bob Dixon	(2)	X	
Lt. Gen. Pete Crow	(2)	X	
Maj. Gen. Clyde Box			X
Mr. John Tutko	-		X
Mr. Geo. Douglas		X	
Jim Holcombe		X	
Wimpy Wilson			X
Mason Shehan			
John Alison			Dinner Only
Stan Sumner			Dinner Only

HUNTING SEASON 1971-1972

<u>November 11, 12, 13.</u>	<u>DINNER</u>		<i>Geese</i>	<u>HUNTING</u>	
	<u>11</u>	<u>12</u>		<u>12</u>	<u>13</u>
Nels Ohman Maj. Gen:	X	X	3	X	X
Harlan-Lewis		X			X
Kirby Smith, Col.	X	X	3	X	X
John Tuttle ✓	X	X	2	X	X
C. B. Roberts ✓	x	x	3	x	x
Nels Kruger	X	X	3	X	X
Mason Shehan	X	X		X	X
Wimpy Wilson	X	X		X	X

 15

HUNTING SEASON 1971-1972

November 4-5-6-

No. Geese Delivered

No. Killed

Lt. Gen A. J. Russell
Maj. Gen. Ernie Cragg
Capt. Ted Hill
Ted. Hill Jr.
Tommy Knowels
Jim Hackler
Jim Holcomb
Mason Sheehan
W. Wilsa

2

4

3

3

4

4

20

16 Geese 2 duck

November 11-12-13

Maj. Gen. Nels O'Nan
Col. Kirby Smith
John Tuttle
C. B. Roberts
Nels Kruger
Mason Sheehan
W. Wilson

3

3

2

3

3

15

12 Geese 1 Duck

November 16

R/A R. S. Brown
R/A Tom McClellan
John McClellan
Capt. Robert Miller
Mr. Tom Pickford
Mason Sheehan

3

2

2 Geese 1 Duck

HUNTING SEASON 1971-1972

November the 16.

R/A R. S. Brown

R/A Tom McClellan

John McClellan

Capt. Robert Miller

Mr. Tom Pickford

Mason Shehan

**Killed . 2 Geese
R Duck**

HUNTING SEASON 1971-1972

November 18-19-20

Cong. Bob Leggett ✓
 Mr. Owen Chaffee ✓
 Brig. Gen John Pesch
 Buck Patrillio
 Mr. Art Kuhl ✓
 Mr. Earl Morgan ✓
 Harry Evans ✓
 Jim Holcombe
 Mason Sheehan

No. Geese Delivered

No. Killed

2

2

9G

November 21-22

Mr. John McGinnis ✓
 Gen. Dave Burchenal
 Barty Bardshar
 W. Towle ✓
 Jim Holcombe
 Mason Sheehan
 W. Wilson

4

4

2 G

November 22=23

Bob Bruce ✓
 Dave Bruce ✓
 James Cranney ✓
 Mason Sheehan ✓

1

1

0 Geese

HUNTING SEASON 1971-1972

November 24-25

No. Geese Delivered

Game Killed

Mr. Russ Blandford
Mr. L. Dixie
Dr. Robert Burnes
W. Wilson
Mason Sheehan

2
2
2

6

4 Geese 3 D

November 25-26

Mr. Russ Blandford
Mr. L. Dixie
Dr. Robert Burnes
Mr. T. Carpenter
Tom Carpenter
Dr.
Mr. Earl Morgan
Mr. Morgan
Mr. Morgan
W. Wilson
Mason Sheehan

Gravely

0

4 Geese

HUNTING SEASON 1971-1972

December 9-10-11

No. Geese Delivered

Game Killed

Gen. Horace Wade
 Lt. Gen Bob Dixon
 Lt. Gen. Pete Crow
 Maj. Gen. Ernie Cragg
 Adm. Tom McClellan
 Mr. John Tuttle
 Jim Holcombe
 Mason Shehan
 W. Wilson
 Jim Holcombe Jr.

6

2

2

4

4

8

20

December 16-17-18

Adm. Joe Moorer
 Lt. Gen. John McPherson
 Len Kilgore
 Ben Able
 Earl Morgan + 2 Sons
 Adm. Bardshar
 Adm. H. E. Shear
 Jim Holcombe
 Mason Shehan
 W. Wilson

2

2

14 Geese

HUNTING SEASON 1971-1972

Dec. 27=28

Mr. Earl Morgan + 3 sons
Mr. John Totka + son
Mr. Jack Carpenter + 2 Sons
Maj. Gen. Clyde Box + 1 son

Number of Geese Delivered

Game killed

00

6 Geese

December 28- 29

Bob Bruce
Dave Bruce
Frank & Bob in
W. D. H. S. C.

0

2 Geese

January 4 - 5

Sen. H. Hughes
Mr. Stan Kinn
Mr. McCarthy
W. P. W. S. C.
W. P. W. S. C.

0

3 G

HUNTERS 13, 14 and 15 January 1972.

13 January:

No dinner

Clyde Box)	
Fred King)	Late arrivals
John Tutko)	

14 January:

Clyde Box	Morning and afternoon shoot and brunch
Fred King	1 goose, 1 duck
John Tutko	
W. M. Shehan	

Ted Hill	Afternoon shoot
	Brunch, Dinner

Windy Whidden	
J. V. Holcombe) Dinner
Bob Lloyd)
	3 geese

15 January:

Clyde Box)	
Fred King)	All day shoot
Ted Hill)	Brunch
Windy Whidden)	
		1 goose

J. V. Holcombe	Shot til 10:30
Bob Lloyd	

John Tutko	Shot til noon
	Noon Brunch
Shehan	Shot til late P. M.

HUNTING SEASON 1971-1972

Number Geese Delivered

Game Killed

January 7-8

Emory Adkins
 Bill Mahoney
 Mason Shehan
 Jim Holcombe
 John Stevenson
 Chet Sobsey
 Chas. Cromwell
 W. W. Ingraham

03

1 Goose

Jan. 14-15

Maj. Gen. Clyde Box
 Mr. Fred King
 Mr. John Tutke
 Ted Hill
 Windy Wallden
 Bob Lloyd
 Jim Holcombe
 Mason Shehan

0

5 Geese 12

Jan. 19

HUNTING SEASON 1972-1973

NAME	Dinner Oct. 31	HUNTING	
		Nov. 1	Nov. 2
Mr. Gen. A. J. Russell <i>with 2</i>	X	X	X
Mr. Gen. Peter Crane	X	X	X
Mr. Gen. Bob Dixon <i>2</i>	X	X	X
Maj. Gen. John Giraudon	X	X	X
Mr. John Tutko <i>2</i>	X	X	X
Mr. Earl Morgan ✓ <i>2</i>	X	X	X
Mr. Jack Carpenter ✓ <i>2</i>	X	X	X
Mr. Paul Jacobs	X	X	X
Mr. Bob Lloyd ✓	X	X	X
Mr. John Allison	X		
Mr. Bill Woodruff	X		
Mr. Holcombe	X	X	X
Mason Sheehan	X	X	X
W. Wilson	X	X	X
Total	14	12	12

Wild goose dinner will be served on the night of 31st of October at 20:00 hours.

GEASE

12

10

12 GEASE

10 GEASE

HUNTING SEASON 1972-1973

NAME	<i>deese Return?</i>	DINNER Nov. 2	HUNTING	
			Nov. 3	Nov. 4
Adm. Bardshar	-	X	X	X
Adm. Weinert	<i>Base Line</i>	X	X	X
Adm. McClellan	<i>Base Line</i>	X	X	X
Capt. Ted Hill	<i>Base Line</i>	X	X	X
Maj. Gen. I. G. Brown		X	X	X
Mr. Tom Scott	- 2/	X	X	X
Mr. Chet Sobsey	- 2/	X	X	X
Mr. Len. King				X
Mr. Bob Lloyd	✓ 4 GEES	X	X	X
Mr. Paul Jacobs		X	X	X
Mr. Eric Van Marbod		X	X	X
Jim Holcomb	✓ -	X	X	X
Mason Sheban	✓	X	X	X
W. P. Wilson	✓	X	X	X
TOTAL	10	13	13	14

GEES KNOWN

3

10
5

<u>NAME</u>	<i>See list</i>	<u>DINNER</u> <u>Nov. 8</u>	<u>HUNTING</u> <u>Nov. 9</u>
M/Gen. Homer Hanson	6	X	X
Col. Joe Moore	3	X	X
Jim Ahmann	1	X	X
Frank Keenah	9	X	X
W. P. Wilsch		X	X

On night of 8 November we will have dinner at the Robert Morris Inn.
We will have sandwiches for lunch on the 9th of November at Holly Point.

*Killed 10 Geese -
DRAKE
Released 6 " Gen. Han.
3 " Joe. Moore*

NAME	<i>Here Return</i>	DINNER 9 Nov.	HUNTING	
			10 Nov.	11 Nov.
Mr. Russ Biandford ✓	2	X	X	X
Mr. Bob Burns ✓	2	X	X	X
Dr. Groves ✓	2	X	X	X
Mr. L. Dixon Jr ✓	-	X	X	X
Mr. L. Dixon Jr ✓	-	X	X	X
Adm. Means Johnson	2	X	X	X
Cong. R. H. Eggle				X
Mr. Owen Chaffee ✓		X	X	X
Mr. McGinnis ✓	2	X	X	X
W. P. Wilson		X	X	X
Mason Shehan ✓		X	X	X
Jim Holcomb ✓		X	X	X
Mr. Gordon Nease ✓		X	X	X
<i>10 killed</i>			6	

Here killed 0
back 3

HUNTING SEASON 1972-1973

NAME

Dinner Dinner

HUNTING
Nov 14

GEN WADE

W.P. WILSON

MASO SHENAN

Dr. Searmons

x

x

x

3

GEESE KILLED

8

GEESE DELIVERED

4 WADE.

Dr. SEARMONS

2

Frank Slackentuck

2

8

HUNTING SEASON 1972-1973

NAME	DINNER		HUNTING	
	16 Nov.	17 Nov.	18 Nov.	
✓ Mr. Nelson Graves	X	2	X	X
✓ Sonny Graves	X	2	X	X
✓ David King	X	2	X	X
✓ Mr. C. B. Roberts	X	2	X	X
Adm. Fritz Herfinger	X	X	X	X
Capt. H. L. ...	X	X	X	X
TRAPPER DRUG	X	2	X	X
Mr. Drapper Dean	X	X	X	X
B7 Gen. Bill Schöning	X	X	X	X
M7 Gen. Bud Bray	X	X	X	X
Jim Holcomb	x		x	x
Mason Shehan	X		X	X
W. P. Wilson	X		X	X

Geese killed

7	8
<hr/>	
15.	

Geese Devoiced 10

HUNTING SEASON 1972-1973

<u>NAME</u>	<u>DINNER</u> <u>Dec. 6</u>	<u>HUNTING</u> <u>Dec. 7</u>
Adm. Blackie Weinel	X	X
Adm. Hal Shaer	X	X
Adm. John Thomas	X	X
Adm. Ike Kidd	X	X
Adm. Bill Houser	X	X
Adm. Tom McClellan	X	X
Jim Holcombe	X	X
GEN ^{ART} ADAMS		
GEN HAROLD CARL		
CAPT TED HILL		
ADAM MIKE ADAMS SN		
ERICK VONNORACAO	X	X

Killed 2600

DEC 3 - 4

LYN KILGORE

TOM SCOTT

Willen

ROBI

BILL MITCHELL 2 - 4

Willen

more at 4

Charles Willen

133460

Leonard Killgore

263979

Thomas L. Fairclough

26398

Dick Samsay

133454

Killed
A few

HUNTING SEASON 1972-1973

NAME	DINNER		HUNTING	
	Dec. 7	8	Dec. 8	Dec. 9
Mr. David R. S. McCall (Dep. Asst. Sec. AF R&D)	X	X	X	X
Mr. Bob Basil (Asst. Dir. ODDRE Int. Program)	X	X	X	X
Col. Ed. Kohlmeier (USAF Spec. Oper)	X	X	X	X
Col. Del Jacks (USAF New Initiatives)	X	X	X	X
Vic. Bray				
Bob Bruch	X	X	X	X
Mr. Herman E. LaGow	X	X	X	X
Mr. James Grannan	X	X	X	X
Mr. Alan Kendal	X	X	X	X
Shehan	X		X	X
W. P. Wilson	X	X	X	X
Frank Vonturlet	X	X		

15 License

6

21 License

Ruled 1 Goose

HUNTING SEASON 1972-1973

<u>NAME</u>	<u>DINNER</u> <u>14 Dec.</u>	<u>HUNTING</u> <u>15 Dec 16</u>
Mr. Tom Jones	X	X X
Gen. Dave. Burchenal	X	X X
Gen. Horace Wade	X	X
Gen. Lou Wilson	X	X X
Gen. Hal Price	X	X X
Gen. Jim Hackler	X	X X
DE. CHAS. MOSLEY	X	X X
MR. CECIL BRANOCK	X	X X
Jim Holcomb	X	X X
W. P. Wilsob	X	X X
FRED KING	X	X X

Arrangements are being made for three to hunt geese at Billy Meyers the 15 and the 16 of Dec.

Arrangement have been made for quail hunting at Tom Swann's hunting area for Friday afternoon beginning at about 14:00 his place.

3 Geese 1 Duck

HUNTING SEASON 1972-1973

<u>NAME</u>		<u>DINNER</u>	<u>HUNTING</u>	
		<u>Dec. 21</u>	<u>22 Dec.</u>	<u>23</u>
John Tutko		X	X	X
		X	X	X
Jack Carpenter	Office Phone 2253542	X	X	X
		X	X	X
		X	X	X
EARL Morgan	Office phone 225-3168	X	X	X
		X	X	X
		X	X	X
Chet Sobsey	Office Phone 225-6244	X	X	X
		X	X	X

Wm. Myers will have dinner prepared for Thursday and Friday Nights.
The telephone for Mr. Myers is (301)476-3439. He will be ready to serve at about 7:45.

Gay Brothers in Easton does the cleaning of the game for us. Take what ever you kill to them and tell them to put it on my bill.

The big red key fits the front and rear door as well as the door to my room where liquor is stored if you need more than is on the bar table.

The other two keys fit the decoy house at the hunting area and one fits the room at the back of the garage where the shells are kept.

Killed 5 Geese

*Earl Morgan
3 Geese*

HUNTING SEASON 1972-1973

<u>NAME</u>	<u>DINNER</u> <u>28 Dec.</u>	<u>HUNTING</u> <u>Dec. 29-30</u>	
Art Kuhl ✓	X	X	X
Harry Evans ✓ 2	X	X	X
Bob Ashcraft 1	X	X	X
John J. B. ✓	X	X	X
Duncan Myers ✓	X	X	X
Dick Bowan ✓	X	X	X
Matt Bowan ✓	X	X	X
John Melby ✓		X	X
W. P. Wilson ✓	X	X	X
Masgm Shehan ✓			X

Killed 8 Geese
1 Duck

Deliver
7

HUNTING SEASON 1972-1973

<u>NAME</u>	<i>Deliver Guns</i>	<u>DINNER</u> <u>Jan. 4</u>	<u>HUNTING</u>	
			<u>Jan 5</u>	<u>6</u>
✓ Cong. Bill Nichols -	3	X	X	X
Emery Atkins -	1	X	X	X
✓ Jerry Ryan -	1	X	X	X
✓ Bill Mahoney ✓		X	X	X
✓ Eric VonMarblat		X	X	X
✓ W. M. Schoningh <i>W. M. Schoningh</i>		X	X	X
✓ Jim Holcomb		X	X	X
✓ W. P. Wilson		X	X	X
LYN KILGORE				X
JIM HACKLEIL -		X	X	X
<hr/>				
7				

8 GENSE KILL

HUNTING SEASON 1972-1973

NAME	<i>See Release</i>	DINNER	HUNTING	
			Jan. 12	13
- Gen. Horace Wade	2			X
Mr. Emon Mahohy	3			X
Mr. Art Kuhl	2	X		X
Mason Shehab				X
W. P. Wilson		X		X

Dinner at the Tidewater Inn with Mr. Art Kuhl on the night of the 12

4 Geese pulled

HUNTING SEASON 1972-1973

<u>NAME</u>	<u>DINNER</u> <u>Jan. 16</u>	<u>HUNTING</u>	
		<u>Jan. 17</u>	<u>18</u>
Mr. Dick Botq-	X	X	X
Gen. Horace Wade		X	X
Gen. Bob Dixon		X	X
Jim Holcombe ✓	X	X	X
W. P. Wilson ✓	X	X	X

	Geese Killed	Geese Del
<u>Nov. 14 1972</u>		
Gen. Horace Wade		4
W. P. Wilson		0
Dr. Seamans (?Did not hunt)		2
Mason Shehan		0
	<hr/>	<hr/>
	8	6

<u>Nov. 17 - 18</u>		
Nelson Graves		2
S. J. Graves		2
David King		2
C. B. Roberts		2
Trapper Drum		2
Jim Holcombe		0
W. P. Wilson		0
Mason Shehan		0
	<hr/>	<hr/>
	15	10

<u>Dec. 4</u>		
Lyn Killgore		0
Tom Scott		2
Chas. Williams		1
Tom Faulcomer		1
Dick Subray		1
C. G. Hill-Mitchell		2
W. P. Wilson		0
	<hr/>	<hr/>
	9	7

<u>Dec. 7, 1972</u>		
Gen. Art Adams		0
Gen. Marion Carl		0
Capt. Ted Hill		0
Gen. Tom McClellan		0
Eric VonNorblad mna bnd		0
Jim Holcombe		0
	<hr/>	<hr/>
	2	0

<u>Name</u>	<u>Date</u>	<u>Geese killed</u>	<u>Geese</u>
Lt. Gen A. J. Russell	11-1 11-2		2
Lt. Gen. Bob Dixon	11-1 11-2		2
John Tutko	11-1 11-2		0
Earl Morgan	11-1 11-2		2
Jack Carpenter	11-1 11-2		2
Bob Lloyd	11-1 11-2		4
Jim Holcombe	11-1 11-2		0
Mason Shehan	11-1 11-2		0
W. P. Wilson	11-1 11-2		0
		<hr/>	22
			1:

Nov. 3 - 4

Adm. Bardshar		0
Adm. Tom McClellan		2
Capt. Ted Hill		2
Tom Scott		2
Chet Sobsey		2
Bob Lloyd		0
Jim Holcombe		0
Mason Shehan		0
W.P.Wilson		0
		<hr/>
		0
		8

Nov. 9

Gen. Homer Hanson		6
Col. Joe Moorer		3
Frank Keenan		0
W. P. Wilson		0
		<hr/>
		10 Geese 1 Duck
		9

Nov. 10 - 11

Russ Blandford - 2		2
Dr. Bob Burns		2
Dr. Corver		2
Lloyd Dixon		0
Lloyd Dixon Jr.		0
Adm. Means Johnson -		2
Owon Chaffee		2
Mr. John McGinnis -		2
Jim Holcombe		0
Gordon Nease - 1		2
Mason Shehan		0
W. P. Wilson		0
		<hr/>
		10 Geese
		3 Ducks
		14

HUNTING SEASON 1973-1974

November 2, 3, 1973

NAME-----	Men's served	Hunted 2	3
Bill Minchell ✓	2 11	X	
Bill Nichols ✓ A	3 16	X	X
-Rob Dixon ✓	2 11	X	
Tom Scott ✓	4 22	X	X
Gordon Nease ✓	3 12	X	X
Jim Calloway	4 22	X	X
Buddy Whitaker ✓	4 22	X	X
Art Kutz ✓	3 12	X	X
Emon Mahoney ✓	3 12	X	
Chas. Cromwell ✓	1 1	X	
John Tutko ✓	4 22	X	X
W. Gasich ✓	2 11	X	
Bob Lloyd ✓	2 11	X	
Jim Holcombe ✓	2 11	X	
W. Widden Widden ✓ bel	4 22	X	X
L. Killgore ✓	4 22	X	X
W. Wilson ✓	4 22	X	X
J. Allison	1 1		
Stan Sommer	1 1		
Manon Sheehan ✓	3 12	X	X
Ed. Braconeri	3 1		
Total	54 113	18	11

Goose Killed

50 26

Mills Farm Kill

37 14

Goose Point Kill

17 12

Total

54 26

*Limit for all hunters

			Killed 7, 10	
Russ Blandford ✓	3	4 4 ✓	X	X
Bob Byrnes ✓	3	4 2 ✓	X	X
Bob Geover ✓	3	4 2 ✓	X	X
Adm. Bardshar	3	4 2 ✓	X	X
Capt. Lansden	2	3 1 2		X
Capt. Snowden	2	3 1 ✓		X
Adm. McClellan		3 1 ✓	X	X
Bob Elder ✓	2	4 2 ✓	X	X
Lyn Killgor ✓	2	2 1 1		X
Roy Alletag ✓	2	2 1 1		X
Emon Mahoney ✓		1 1		X
John Tutko		4 2 2	X	X
Bert Spivey	2	2 2 2	X	
Jim Holcombe ✓		4 2 2 ✓	X	X
W. Whidden		3 1 2 ✓		X
W. Wilsch ✓		4 2 2	X	X
C. Burden ✓		4 2 2 ✓		
	<u>24</u>	<u>55</u> 24 21	<u>10</u>	<u>15</u>
Geese Killed			26	34 6

Nov. 15-16-17, 1973

NAME	MEALS		HUNTED		Geese Del.	Duck Del.
	B	D	16	17		
Col. Eahard	2	2	X	X	2	
Col. Vandenbos	2	2	X	X	2	1
Trapper Drum	2	2	X	X	2	2
C. B. Roberts	2	2	X	X	3	
Vic Bray	2	2	X	X	2	
Col. Ed. Kohlmeir	2	2	X	X	2	
Dan Darne	2	1	X	X	3	
Dick Marsh	1	1	X	X	2	
Eric vonMarbod	2	2	X	X	2	1
Skip Johnson	1	2	X	X		
W. Whidden	2	2	X	X	2	
J. Holcombe	2	2	X	X		
W. Wilson	2	2	X	X		
C. Burdett	2	2				
Mason Shehan	1			X	1	
Totals	27	26	13	14	25	4

11/16 Mills place kill
 11/16 Goose Point
 11/17 Mills Place kill
 Goose point

Geese	Duck
17	
3	1
17	1
3	

Total kills 40 2

Nov 15/16
 Nov 16/17
 Nov 17/18
 Nov 18/19
 Nov 19/20
 Nov 20/21
 Nov 21/22
 Nov 22/23
 Nov 23/24
 Nov 24/25
 Nov 25/26
 Nov 26/27
 Nov 27/28
 Nov 28/29
 Nov 29/30
 Nov 30/1
 Dec 1/2
 Dec 2/3
 Dec 3/4
 Dec 4/5
 Dec 5/6
 Dec 6/7
 Dec 7/8
 Dec 8/9
 Dec 9/10
 Dec 10/11
 Dec 11/12
 Dec 12/13
 Dec 13/14
 Dec 14/15
 Dec 15/16
 Dec 16/17
 Dec 17/18
 Dec 18/19
 Dec 19/20
 Dec 20/21
 Dec 21/22
 Dec 22/23
 Dec 23/24
 Dec 24/25
 Dec 25/26
 Dec 26/27
 Dec 27/28
 Dec 28/29
 Dec 29/30
 Dec 30/1
 Dec 31/2

Nov. 20 - 21, 1973

Name	Meals		Days Hunted		Geese Del
	B	D	Nov. 20	Nov. 21	
Sgt. Wilson	2	1	X	X	2
C. Williams	2	1	X	X	2
P. Haney	2	1	X	C	2
T. Scott	1	1	X		2
Stan Kimmitt	1	1		X	2
Art Kuhn	1	1	X	X	2
B. Nichols	2	1	X	X	2
J. Calloway	1	1	X		2
J. Tutko	2	1	X	X	2
W. Wilson	2	1	X	X	0
Total	16	10			18
Game Killed			Nov. 20	Nov. 21	
Holly Point				3	
Mills Place			3	1	
Total			3	4	7

HUNTING SEASON 1973-1974
Dec. 6- 7- 8, 1973

Name	Meals		Days Hunted		G. D.
	Dec. 6, Lunch	7, 8 Dinners	Dec. 7	Dec. 8	
Gen. J. Hackler	2	2	X	X	2
Gen. Pesch	2	2	X	X	2
Gen. McMillian	2	0	X	X	2
Tim Driscoll	2	2	X	X	2
Bill Mahoney	2	2	X	X	2
Emery Adkins	2	2	X		2
C. Brandon	2	2	X	X	2
P. Eldridge	2	1	X	X	3
Conway George	2	1	X	X	3
C. Moore	2	1	X	X	3
Deke Childs	2	2	X	X	2
Col. Mathews	2	2	X	X	2
Jim Hackler	2	2	X	X	2
J. Holcombe	2	1	X	X	0
W. Whidden	2	1	X	X	0
M. Shehan	1	1		X	0
C. Burdett	2	2			0
W. Wilson	2	1	X	X	0
Total	35	27			29

Geese Killed
Holly Point
Goose Point
Mills

0
22
6

Total 28

HUNTING SEASON 1973-1974

Dec. 13, 14, 15, 1973

Name	Meals		Hunting		Geese Del.
	B	D	14	15	
Bob Bruce	2	2	X	X	2
— Jeff Strange	2	2	X	X	2
David Ridley	2	2	X	X	2
— Allen Kendell	2	2	X	X	2
Jim Granum	2	1	X		2
— Joe Steele	2	2	X	X	2
Adam Herron	2	2	X	X	2
J. McPherson	2	1	X	X	2
Francis Howard	2	2	X	X	1
Fred Menke	2	2	X	X	1
— Lyn Killgore	1			X	2
Dr. Yarborough	1			X	2
R. Alletag	1			X	2
W. Wilson	2	2	X	X	0
Total	23	20			24

<u>Kill</u>	
Holly Point	0
Mills Place	2
Goose point	31
Total	33

HUNTING SEASON 1973-1974

Dec. 21-22 1973

NAME	Father Son Day Meals.		Hunting		Gr De
	Brunch	Dinner	Dec. 21	Dec. 22	
John Tutko (2 sons)	6	6	X	X	3
Frank Williams (1 son)	0	4	X	X	3
Col. Vandenbos (2 sons)	6	6	X	X	3
Bob Bruce (1 son)	4	4	X	X	3
B. Spivey (2 sons)	3	0	X	X	3
B. Whittaker (1 son)	4	4	X	X	3
J. Calloway (1 son)	6	6	X	X	3
Total	35	30			21

Kill

Mills	0
Goose Point	29
Holly Point	0
Total	29

Additional Expenses paid to support
hunting during Father son Day.

Miscellaneous foods and juices	28.96	28.96
Two Guides for two days at \$25.00 per day per guide		\$100.00
		128.00

HUNTING SEASON 1973-1974

Jan. 3-5 1974

NAME	Meals		Hunting		Game Dol.
	Brunch	Dinner	Jan. 4	Jan. 5	
Stan Kimbitt	2	2	X	X	3
Art Kuhl	2	2	X	X	3
Tom Scott	2	2	X	X	3-2
Bob Liggett	2	1	X		3
O. Chaffee	2	2	X	X	3
Gordon Nease	2	1		X	2-2
M. Steele	2	1		X	1
W. Whidden	2	2	X	X	2
Jack Carpenter	2	2	X	X	3
John Pesch	2	2	X	X	2
J. Tutko	2	2	X	X	3
W. Wilson	2	2	X	X	0
Tom Jones					6 - 6
Chet sobsey	$\frac{1}{25}$	$\frac{2}{21}$		X	$\frac{2}{36}$

Kill

Geese

Ducks

Mills place
 Goose Point
 Holly Point
 Total

4
 11
 2
 17

2
 13
 15

HUNTING SEASON 1973-1974

Jan. 10-11-12 1974

Name	Meals		Hunting		Game D Del.
	B	D	11	12	
D. Sweet	2	2	X	X	3
J. Mathews	2	2	X	X	2
D. Childs	2	2	X	X	2
Gen. Patterson	2	2	X	X	3
Col. Eahard			X	X	2
Adm. Halverson	2		X	X	3
Ted Hill	2	2	X	X	0
S. Johnson	2	2	X	X	2
Dick Marsh	2	2	X	X	1
Bill Kuster	2	2	X	X	1
David Holding	2	2	X	X	2
Barry Hawkids	2	2	X	X	2
John Odell	2	2	X	X	2
Frank Dusch	2	2	X	X	2
Stuart Huns	2	2	X	X	2
W. Whidden	1	1		X	1
J. Holcombe	1	1		X	0
W. Wilson	2	2	X	X	0
C. Burdett	2	2			
J. Holcombe Jr.	1			X	
Total	36	36			30

Kill

Mills place
Goose Point
Holly Point

Total

3

5

0

8

HUNTING SEASON 1973-1974

Jan. 14 - 19, 1974

Name	Meals		Hunting		Game
	B	D	18	19	
E. Kohlmeier	2	2	X	X	2
D. Bowen	2	2	X	X	2
B. Clark	2	2	X	X	2
Vick Bray	2	2	X	X	0
L. Killgore	1	1		X	2
D. Smith	1			X	2
E. Mahoney	1			X	2
G. Nease	2	1	X	X	2
B. Shawcross	2	2	X	X	3
F. King	2	2	X	X	2
F. King Jr.	2	2	X	X	2 2
A. Adams	2	2	X		3 2
J. Hackler	2	2	X	X	3
J. Hackler Jr.	2	2	X	X	3
J. Holcombe	2	8	X	X	0
W. Wilson	2	8	X	X	0
W. Whidden	2	2	X	X	1
C. Burdett	2	2			
F. Howard	1	1	X	X	0
F. Howard son	1	1	X	X	0
Totals	34	44			31

Kill	
Goose Point	33
Mills	36
Holly point	0
Total	69

[Whereupon, at 12:30 p.m. the subcommittee was recessed subject to the call of the Chair.]

POLITICAL CONTRIBUTIONS MADE IN ITALY

Exxon Corp.

WEDNESDAY, JULY 16, 1975

UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice at 9:40 a.m., in room 4221, the Dirksen Senate Office Building, Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Symington, Clark, Case, and Percy.

OPENING STATEMENT OF SENATOR CHURCH

Senator CHURCH. The hearing will come to order.

On May 16, this subcommittee learned from Mr. Dorsey, president of Gulf Oil Co., that Gulf had made a \$4 million illegal political contribution in Korea.

On June 10, Thomas Jones, president of Northrop Corp., admitted that Northrop had paid \$450,000 to its agent in Saudi Arabia for the purpose of bribing the former and present Minister of Aviation in that country, as well as millions of dollars of other payments which could not be accounted for.

In Italy, an Italian magistrate uncovered evidence of questionable political payments by the major oil companies but the dimensions of these payments were not known.

EXXON PAYMENTS IN ITALY

Now, we have the Exxon Corp. admitting that in Italy alone, \$46 million was allegedly paid to Italian political parties, although even that is not certain since the corporation cannot be sure of the ultimate destination of these payments.

It is time for plain speaking. A cancer is eating away at the vitals of Western society and that cancer is corruption, corruption on an endemic scale.

We can no longer pretend that this is purely a matter of personal or corporate morality. We need only read the recent Italian election results, in which, in Italian terms, the Communists scored spectacular gains. Their slogan was, "We are the only ones with clean hands."

Well, if Exxon is to be believed, their hands were not completely clean either, but a large part of the Italian people believed their claim.

PATTERN OF PAYMENTS

There is a pattern that is emerging in these hearings. Mr. Dorsey testified that Gulf invested heavily in Korea at the explicit urging of the U.S. Government. Mr. Jones stated that Northrop was carrying out U.S. Government policy in promoting U.S. exports.

In the Italian case, there is evidence that in the 1950's, the U.S. Government played a critical role in influencing Italian legislation to favor the private foreign—American—oil companies.

STATE DEPARTMENT POSITION ON PAYMENTS

In each case, it appears that after its initial encouragement, the U.S. Department of State adopted a policy of hear no evil, see no evil. In the Italian case, for example, we are told that when Exxon informed high U.S. Embassy officials in Italy of the payments to the political parties, their reaction was, "that's a nice slice of pie they're getting."

NECESSITY TO CHANGE ATTITUDE OF STATE DEPARTMENT AND
MULTINATIONALS

Well, that is not good enough. Both the multinational corporations and the Department of State had better get their heads out of the sand, or else this country and its major allies are going to wake up one morning and find that the basis of stable democratic government has been eaten away.

For when an electorate becomes convinced that democratic government is the servant, not of the people, but of large vested economic interests, it is certain that the status quo will no longer be tolerated. Fundamental changes, not to our liking, will then become inevitable.

Corruption, in big business as well as in politics, has become the enemy of free societies, giving the Communists a potent weapon to wield against us.

Now, our witnesses this morning from the Exxon Corp. are prepared to make a disclosure, which in fairness to them is represented as being confined to Italy and not a pattern of their business operations throughout the world.

They will explain how this came about and we will question the witnesses after the initial statement has been made on the particulars of the Italian matter.

Now, if Senator Clark has no statement to make at this time, we will proceed with the witnesses.

If you would like to make a statement, Senator, please feel free.

VIEWS OF SENATOR CLARK

Senator CLARK. I have no statement. I simply—because I have to leave for a half-hour or so, say that I would hope the witnesses would particularly address themselves to two areas: (1) The reason for the special budget—why that obfuscation was really used, why, in fact, a special budget was used to make what turned out to be perfectly legal contributions, and (2) in connection with the massive contributions from Exxon and other oil companies, on the one hand, and the passage

of legislation in the Italian Parliament which was favorable to the oil companies, on the other.

Those are the two areas in which I have the greatest interest in an explanation.

Thank you, Mr. Chairman.

Senator CHURCH. Thank you, Senator Clark.

SWEARING OF WITNESSES

Our witness this morning is Mr. Archie Monroe, who is the controller of the Exxon Corp., and he is accompanied by Mr. Richard Keresey, who is the counsel.

Mr. Monroe, will you stand and be sworn, please?

Do you swear that all of the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MONROE. I do.

Senator CHURCH. Mr. Monroe, you have an opening statement?

Mr. MONROE. Yes, I do, Mr. Chairman.

Senator CHURCH. Why do you not proceed with that statement?

Mr. MONROE. Thank you, sir.

TESTIMONY OF ARCHIE L. MONROE, CONTROLLER, EXXON CORP.; ACCOMPANIED BY RICHARD KERESY, COUNSEL

Mr. MONROE. My name is Archie Monroe. Prior to July 1973, when I was named controller of Exxon, I held assignments in Exxon's worldwide chemical operations, our affiliate in Venezuela, and our refinery in Louisiana. I am here to talk about political contributions made by our affiliate in Italy. These were made up to 3 years ago when they were stopped completely at Exxon's directive. There have been no contributions since early 1972.

EXXON POLICY REGARDING COUNTRY LAWS

Exxon's policy is to comply with the laws of all countries in which it operates and further to act in accordance with fundamental standards of honesty and candor. This is explicitly stated in a policy statement issued in 1972, a copy of which I have submitted to the committee.

Violations of this policy have been few and have not gone undetected for long. An exception, and by far the worse and longest aberration, occurred in Italy prior to 1972.

BACKGROUND OF ESSO ITALIANA PROBLEM

Before going into detail, I will summarize the facts vital to an understanding of the Esso Italiana problem.

First: The Esso Italiana problem resulted essentially from a failure of management and financial controls to detect promptly abuses by the country manager at that time. As chief executive of Esso Italiana for about 20 years, he was admired and respected not only by Exxon but throughout Italian industry and government. Exxon's trust was misplaced, as I will describe.

Second: when the abuses were discovered in early 1972, they were cured quickly and decisively and they were cured before anyone heard of Watergate, and long before the Italian Government or our own Government began investigations of political contributions.

Third: Until mid-1971, Esso Italiana was authorized to make political contributions, which were then and still are lawful by corporations in Italy. All the political parties have large administrative staffs and subsidize newspapers and other publications. Major noncommunist parties depended almost entirely upon business support until mid-1974 when a law on political contributions introduced government subsidies of about \$75 million per year.

The country manager maintained it was necessary for Esso Italiana, as an Italian corporation, to make substantial contributions to the major noncommunist political parties and candidates. At no time did Exxon management approve any contributions to the Communist party.

Moreover, he maintained, the political parties did not want the details of the business support they were receiving to be revealed.

Accordingly, company management was persuaded that it was necessary to make authorized contributions without disclosing the recipient, as indeed it appears was the custom. This meant handling the payments so that they could not be identified as political contributions on the books of Esso Italiana. This was a mistake.

EVENTS PRECEDING ACTS IN ITALY IN 1972

Now, for the events which took place in Italy up to 1972, and the findings of our Italian investigation.

Authorized political contributions in Italy grew from \$760 thousand in 1963, the earliest year covered by our investigation, to over \$5 million in 1968, by which time Esso Europe headquarters in London—the regional management to which Esso Italiana reported—had become very concerned at the size and control of these expenditures.

They instructed the country manager both to reduce the amount of the contributions and to agree in advance with his Esso Europe contact vice president on the amount of such payments each year.

The country manager began submitting estimated expenditures and the authorized contributions were reduced to \$3.5 million in 1970.

Finally, in mid-1971, regional management which had become increasingly concerned about lack of control and possible abuse, ordered these payments stopped completely. From 1963-71, the contributions authorized averaged \$3 million per year.

Incidentally, although I express money amounts in dollars, all contributions were made in lire from general funds by Esso Italiana.

AUDIT OF ITALIAN COUNTRY MANAGER'S ACTIVITIES IN 1972

Because of rumors of possible conflicts of interest, Esso Europe began a special audit of the country manager's activities in January 1972. While this was in its initial stages, it was learned that the country manager had made unauthorized secret commercial commitments and payments.

When this came to light in mid-March 1972, the special audit was immediately intensified into a full-scale investigation.

TERMINATION OF COUNTRY MANAGER

Shortly thereafter, the country manager was terminated, by which time other unauthorized activities had come to light. Among these were secret purchases of real estate, secret guarantees to banks in favor of other companies, and abuses of the capital budget procedure.

These secret and unauthorized activities also included about \$19 million of payments made over many years. The country manager claimed these were political contributions in addition to those authorized, but as we will explain, we have no way of verifying the actual purposes or recipients of these payments.

SECRET BANK ACCOUNTS

The investigators reported in 1972, the methods of making and booking the authorized and the unauthorized payments. They were always approved by the country manager and were often made against invoices for goods and services not actually received, or by cash disbursements with no supporting documentation.

The country manager generated funds by rebates from suppliers, customers, and banks. Most of the funds from these sources were channeled into secret bank accounts known only to him and his personal assistants and not recorded on Esso Italiana books.

He also made payments by opening bank overdraft accounts, and frequently transferred funds between accounts, which made subsequent tracing of these funds almost impossible. He controlled all deposits and withdrawals from these accounts, and had all bank records channeled to him personally.

This tight personal control that he had over the bank accounts prevented the auditors from detecting these secret accounts through normal bank confirmation procedures, since the banks, at his request, did not reveal the existence of the accounts to our auditors.

UNCERTAINTY ABOUT FUNDS AND RECIPIENTS

As a result and critical to the problem, despite the subsequent exhaustive investigations, we do not know to this day with any certainty where any of the money went, except for certain commercial payments.

This is true both for authorized political contributions as well as unauthorized payments he claims were political.

In fact, even in the case of payments booked and supported by invoices from politically related organizations, at least half of the funds were recycled into bank accounts known only to the manager and his personal assistants. Of the cash withdrawn, allegedly to make political contributions, verification of final recipients is practically impossible.

We are reasonably certain that large amounts did reach political parties, in part because after contributions were stopped in 1972, the new Esso Italiana management had to resist party pressure to resume on a large scale.

In 1968, as I stated previously, our regional management became very concerned not only about the size of the political contributions in Italy but also about the lack of control and reasons for such large contributions.

In the procedure introduced to effect better control and a clearer understanding of why these large contributions were necessary, the country manager allocated the total amount to categories relating to business objectives.

This procedure itself raises the question as to whether these objectives were special favors so tied to the contributions as to make them improper, as opposed to being simply business objectives which could best be achieved in a favorable business environment.

The vice president of Esso Europe who annually reviewed this allocation says that he was told repeatedly and understood that all payments were lawfully made to political parties. The country manager stated that these were only a list of the objectives that justified Esso Italiana's making expenditures to support the parties—and not a list of specific favors to be obtained by agreement.

It is important to an understanding to know whether we are looking at this problem in the light of hindsight or in the light of facts known in the period before 1972. It was in 1971 that regional management became sufficiently concerned about improper tie-ins that they ordered all political contributions stopped.

INVESTIGATION BY ITALIAN PARLIAMENTARY COMMISSION AND ITALIAN PROSECUTOR'S OFFICE

An Italian parliamentary commission and the Italian Prosecutor's Office have been investigating political payments by the Italian oil industry for the past year and a half.

ESSO-ITALIANA EMPLOYEES UNDER INVESTIGATION

Many people, including our excountry manager and two Esso Italiana employees, have been under investigation. We understand that he has denied any impropriety, and has insisted that all payments made were political contributions not related to any special favors. We know that our employees under investigation have denied any wrong doing.

ACTIONS BY EXXON MANAGEMENT REGARDING INVESTIGATION IN 1972

When confronted with the findings of the Italian investigation in 1972, Exxon management moved promptly and decisively. The major actions taken to establish proper controls over Esso Italiana operation were:

- (1) Termination of the country manager, and installation of new management;
- (2) termination of all political contributions in Italy by the new management—as instructed by Esso Europe in 1971;
- (3) strengthening financial and management controls in Esso Italiana;
- (4) instituting arbitration proceedings to recover payments made relating to certain unauthorized commercial transactions;
- (5) reviewing the findings of our investigation to determine whether there is sufficient basis for a lawsuit against the country manager. This matter is still under consideration.

EXXON ACTION TO PREVENT FURTHER UNAUTHORIZED PAYMENTS WORLDWIDE

In addition to corrective actions in Esso Italiana, Exxon management, determined to see that what happened in Italy would not occur anywhere else, took further steps in 1972-74, affecting worldwide operations. New financial controls were implemented and a strong policy statement was issued by the chairman of the board emphasizing strict observance of laws, and directing that transactions must be properly booked and information not withheld from auditors.

STRENGTHENING OF EXXON'S AUDIT ORGANIZATION

In mid-1973, Exxon's internal audit organization was strengthened. Our auditors, as a fundamental part of their audit programs, evaluate compliance with this policy and are instructed to report any violations directly to New York. Some few minor violations have occurred since then and been corrected, but none of these involved political contributions.

During the Italian investigation, progress was regularly reported by Exxon officers to the corporation's board of directors, board audit committee, and outside auditors. At no time did these payments reduce our U.S. income taxes.

ADDITIONAL REVIEW OF 1972 INVESTIGATION

While the concealed expenditures were large, they were not material in the context of Exxon's worldwide operations. However, our management has considered it desirable to review again the 1972 investigation and the corrective actions taken at that time, to determine whether any additional action should be taken. This review is presently in progress and is expected to be completed within several weeks.

SUMMARY OF STATEMENT

In summary: Exxon has run its business throughout the world on the principle of compliance not only with local laws but with basic standards of honesty and candor. The Italian situation was a unique aberration.

The investigation disclosed errors of judgment at various times in the past by members of Esso Europe, and New York general management, the controller's function, the internal audit staff, and others. With the advantage of hindsight, it was a mistake to authorize the country manager to handle political contributions in the manner agreed. However, the principal cause of our difficulties was clearly the country manager's own breach of the trust placed in him.

EXXON'S EMBARRASSMENT IN ITALY

We are concerned and embarrassed by the fact that these irregularities occurred on such a scale and for several years in one of our affiliates. This is particularly distressing because we believe we have built a reputation for lawful ethical conduct worldwide.

However, I hope you will keep in mind, that when the full situation was disclosed by our own investigators, we stopped all ques-

tionable activities promptly and decisively, on our own initiative, over 3 years ago.

Gentlemen, that concludes my prepared remarks. I have mentioned the basic policy statement of our chairman, which I would be glad to read.

SPECIAL BUDGET FOR POLITICAL PAYMENTS

Senator CHURCH. Thank you very much, Mr. Monroe, for your statement.

I want to read to you from the conclusions of your own internal audit report on political contributions in Italy that report being dated August 30, 1972, on page 65.

You have it available?

I read the following: "The special budget was created to control payments which by their nature could not be accurately reported on the books of the Italian company. Although such payments had been made since 1948, no formalized procedure was introduced to control the amount of these expenditures until 1964 when ESI management and ESSO New Jersey general audit, and the then New Jersey contact executive for Italy, agreed upon the procedure which became known as the special budget.

"From 1963 to 1972, \$29 million was disbursed against this budget"—reading from the record.

Mr. MONROE. Yes sir.

SPECIAL BUDGET SET UP WITH KNOWLEDGE OF EXXON MANAGEMENT

Senator CHURCH. So this special budget for political payments was set up with the full knowledge and approval of Exxon management in New York, was it not?

Mr. MONROE. It was set up, to my knowledge, and approved by the contact for Italy in New York, yes, sir.

Senator CHURCH. And that was done in 1963?

Mr. MONROE. This was done in 1963, but it was just a total amount of money, Senator. It is hard in retrospect to classify that as a real budget by the terms that we know budgets for control purposes.

Senator CHURCH. But through that special budget between 1963 and 1972, \$29 million was disbursed for purposes of political contributions?

Mr. MONROE. Yes sir.

AWARENESS OF TOP EXXON MANAGEMENT

Senator CHURCH. That was fully known to the top management of the Exxon company?

Mr. MONROE. I do not think that is quite correct, Senator.

Senator CHURCH. In what way is that not correct?

Mr. MONROE. It was known to the member of management that was responsible for following the Italian operation. It was not fully known by the board of directors or all of the management of the Exxon Corp.

Senator CHURCH. Well, did the president of the company, Mr. Jamieson, know?

Mr. MONROE. At the time that Mr. Jamieson was contact for Esso on Europe, he was aware we were making political contributions. I could not get in contact with him last night. I do not know if he knew the amount per se.

Senator CHURCH. Was the board of directors of the Exxon company informed of the millions of dollars that were being distributed for political purposes?

Mr. MONROE. Not during the time frame they were being disbursed. When we did the audit of this total problem they were apprised of the total situation and lack of control we had at the time.

Senator CHURCH. Can you tell me why the board of directors of the company would not be advised, in as much as \$29 million was being disbursed for political purposes in Italy?

Mr. MONROE. Well, Senator, that was being disbursed on the average of \$3 million per year and the board acts on annual matters and it is in retrospect that you have the accumulative \$29 million and it has already been disbursed. At that point when we got into this situation they were advised we had spent that much. But we did not have a plan to go and disburse \$29 million that they approved in advance.

Senator CHURCH. Your figures show that anywhere from \$3 to \$5 million were disbursed in any given year.

Is your testimony that this is an insufficient amount of money to call to the attention of the board of directors, particularly when you consider the unusual purpose for which it is being spent?

Mr. MONROE. We were under the impression, and still are, that political contributions are lawful in Italy.

Senator CHURCH. That is not my question. My question is, is this sum so inconsequential to a company the size of Exxon that the board of directors is simply kept unadvised even though its purpose was political?

Mr. MONROE. Senator, I cannot explain why this was not brought to the board's attention. In retrospect maybe it should have been brought to the board's attention, we have so many operating costs around the world that it is impossible for the board to review them all in detail.

Senator CHURCH. You do not have operating costs of this character, that is to say, \$3 to \$5 million in a foreign country that is being given to political parties, do you?

Mr. MONROE. No, sir.

Senator CHURCH. You told me, in fact, have you not, that this is not typical of the general pattern of operation, that it is unique in Exxon's experience?

Mr. MONROE. I have told you that, sir; yes, sir.

Senator CHURCH. So I repeat the question. Given the fact that a large amount of money—at least as I count money, perhaps not as Exxon counts it—\$3 to \$5 million does seem to me to be quite a lot of money, particularly when it is being given for political purposes. And inasmuch as this was not a general pattern of operation, do you not think the board of directors should have been advised?

Mr. MONROE. In retrospect I think that is right.

Senator CHURCH. Well, I press this question because this also is a part of the pattern that we have found not only in the case of Exxon but in the case of other large multinational corporations. Bribes and

payoffs are made for the purpose of securing favors or securing business accounts, but the board of directors is not advised and then later, when it comes to light and a general audit is undertaken, usually this comes about as a result of the actions of the board to find out what has been going on.

It is almost like the case of the Government. I am heading up an investigation of intelligence activities of the Government for the purpose of advising the Congress of what has been going on. Now, I do not approve of that practice in government and I do not approve of that practice in big business, and yet it is a pattern by which the executive management refrains from advising the board of directors of serious improprieties.

USE OF DUMMY INVOICES

Now, you say in your opening statement that corporate political contributions were perfectly legal, regular and proper in Italy at the time that they were made, and yet the procedures for this special budget seem highly irregular. They included using dummy invoices to indicate payment for services not actually rendered; overbilling of customers with the excess returned surreptitiously for use in the special budget, and other methods of disguising the political payments on the company's book.

Indeed, as noted by your auditors, the very existence of this special budget was considered, and I quote from the auditors' report, "too sensitive to disclose to anyone below the level of the regional general auditor." That is quoted from page 21 of the report.

Mr. MONROE. Yes, sir.

DISGUISE OF RECIPIENTS OF MONEY

Senator CHURCH. Now, if Exxon's political payments were perfectly legal and regular, why did the company go to such extremes to dismiss the fact that they were making such payments?

ESSO ITALY'S CLAIM

Mr. MONROE. I understand, Senator Church, the country manager, in whom we had implicit trust up to 1971, had convinced us or persuaded us it was necessary to disguise the recipients, this was the customary way to do it in Italy.

As I said at the conclusion of my statement, in retrospect this was a mistake to agree to that but we did agree to it and that led to part of our problems.

Senator CHURCH. In other words, your testimony is that the man who headed up Exxon's subsidiary in Italy told the company that the management and disbursement of these funds should be camouflaged and that these devices should be used to conceal what was going on. Is that correct?

Mr. MONROE. Yes, sir, that is correct.

Senator CHURCH. Didn't it occur to you as questionable to take that advice?

Mr. MONROE. At the time they were convinced—he convinced them—that this was the customary way to do it, and they accepted his word

that this was proper and he was doing nothing illegal, and in retrospect it was a mistake.

Senator CHURCH. I do not understand why you emphasize that in retrospect. Of course, it was a mistake in retrospect because in addition to spending the \$29 million, in a concealed and camouflaged manner, that was made available for political purposes in the special fund, you later discovered that this man had taken how many more millions of dollars from other contracts?

ADDITIONAL MONEY

Mr. MONROE. There was another \$19 to \$22 million that he took he claimed was for political contributions. There were other payments related to some commercial transactions.

Senator CHURCH. The \$19 to \$22 million that he took in addition to the \$29 million that he alleges was used for additional political contributions, that additional amount was not known to the company at the time that it was taken, is that correct?

CONCEALED BANK ACCOUNTS

Mr. MONROE. That is correct, sir, and this was due to, in large part, that he had this large number of concealed bank accounts that he directed the total activity of and they were not confirmed to our auditors, were not known to any of our financial officers in the affiliate or outside of the affiliate.

Senator CASE. I wonder if I could ask one question?

This \$19 million was during the same period of time?

Mr. MONROE. Yes, sir. Everything we are talking about, Senator CASE, is 1963 to 1972 because that was the time frame covered by our audits.

Senator CASE. So 29 plus 19, that is—

Mr. MONROE. \$46 to \$49 million.

Senator CASE. And if it was 9 years that would be about \$5 or \$6 million a year?

Mr. MONROE. Yes, sir.

EARNINGS OF ESSO ITALIANA

Senator CASE. What were the earnings of the Italian company?

Mr. MONROE. The Italian company was in a loss position in each of those years.

Senator CASE. So that there were no earnings at all that this money came out of?

Mr. MONROE. That is right.

Senator CHURCH. Well, considering somewhere between \$49 and \$50 million as being disbursed for political purposes during that period, I do not wonder that the subsidiary was not making money. And yet, I go back to the fact that you emphasize that in retrospect the various concealment devices that were used to keep secret the disbursements of this money to Italian political parties was a mistake.

You really suggest by saying that when the company discovered it had been taken for an additional \$19 to \$22 million above the \$29

million it had authorized for this purpose, then in retrospect it was a mistake to have given, to have engaged in these efforts to conceal what was going on?

Mr. MONROE. No, I did not want to imply that. That would be wrong, whether we were doing it today, whether we were making political contributions that would be unacceptable to me as Controller of the Corporation. That was just not the way we should be handling it.

CASH-FLOW

Senator CASE. Where did the cash-flow come from?

Mr. MONROE. The cash-flow, they have the depreciation and flow and we were making loans to the corporation as it made other investments and so forth. It was about break even cash-flow because of the depreciation, Senator CASE.

Senator CASE. I see.

Mr. MONROE. It was at the end of the period, when we found, large amounts of overdrafts, that the cash-flow had to come from us.

Senator CASE. So really it was even a negative cash-flow?

Mr. MONROE. Through 1963 through 1971, it was about a break even cash-flow.

Senator CASE. Do you think that perhaps these various unusual diversions of company funds would have been increased if there had been more cash?

They seemed to go right up to the limit, took everything you had. What extraordinary management.

QUOTATION FROM COMPANY AUDITORS

Senator CHURCH. May I quote what the auditors of the company themselves said, because I think it is the best answer to the questions we have been asking.

The auditors themselves concluded as follows: This is from page 4 of the auditor's report, "The principal factor" which permitted the irregularities to occur and remain undiscovered for such a long period of time was the fact that higher levels of management in both the region, and in Jersey, condoned the falsification of records to obtain funds for confidential special payments."

I think that says it all.

COLLADO REPORT

Mr. MONROE. Senator Church, in the report by Mr. Collado, and in his report to the management committee after reviewing all of the reports relating to our Italian investigations, he concluded that was one of the reasons, but he felt in addition this would probably have happened without that activity because of this guy's assumption of power and the way he found to handle the fund.

A TO Z FUND

That is just an added point I would like to make.

Senator CHURCH. Mr. Monroe, on page 5 of your statement you refer to the fact that the contributions were made for business objectives. Is this the A to Z fund referred to on page 77 of the auditor's report?

Mr. MONROE. I am sorry. I did not get the question, Senator. On what page?

Senator CHURCH. Page 77 of the auditor's report.

Mr. MONROE. Yes, sir. That was—

Senator CHURCH. That on page 77 it shows that this budget was approved by Esso Europe management by the categories that are mentioned here.

CATEGORIES OF PAYMENTS

If we go down the categories, which, according to the testimony that you have given, represented the business objectives of the company for which this money was laid out in 1971—between 1967 and 1971—let me read the categories: Special fuel oil supply of power-plants—I will read some of them because some Italian references already are not understandable to me. Deferred payment is another; reduced taxation on gas-oil, used as heating oil is another. Importation of natural gas is another. Refinery licenses is another. Suez extra charges reimbursement is another. Positions on highways is another.

Then, there are two examples: Miscellaneous—Sicily, and miscellaneous—Italy. Then, there is dredging—Augusta. Then, there is tax legislation. Then there is deemed interest, and so forth.

The entire special budget, the amount is allocated to each of these objectives, will appear in the record.

Now, as I indicated, the special budget to which I have just referred, covering the period 1964 to 1971, showing the allocations to which I have referred, is shown to have been reviewed by Esso Europe management as reported to Esso Europe by Dr. Cazzaniga.

Is that correct, according to your best understanding?

Mr. MONROE. According to my understanding this started in 1968, and was reviewed by the contact vice president that followed the Italian corporation.

RELATION OF CATEGORIES TO ISSUES UNDER CONSIDERATION BY ITALIAN GOVERNMENT

Senator CHURCH. Now, the interesting thing about these various categories is that they not only relate to questions that were before the Italian Government, policy, legislation, but they track with the issues that were then currently under consideration by the Italian Government, all of which obviously affect the oil company.

I think that since these categories were set out and made known to your European management, and since they relate to questions of legislation and government policy decisions by the Italian Government which would affect the company, that Exxon was put on notice that something was going on here that cannot be dismissed as simply contributions to Italian political parties.

CAZZANIGA

Mr. MONROE. Well in 1968—this list came in in December 1968 for the first time in this detail. The Esso Europe vice president talked to Dr. Cazzaniga who told him there were no specific favors tied to this, that these were perfectly legal contributions he was making

and at that time our man still believed Dr. Cazzaniga. It was in 1971 that we became concerned about the specificity of this and we ordered all of these contributions stopped in 1971 because of this concern and we found out in 1972 he did not stop, he continued to make payments in late 1971 and 1972 even though we had ordered him to stop making those payments.

Senator CHURCH. I do not quarrel with you that there came a time when the company decided that it was being robbed and put a stop to this massive disbursement of company funds for political purposes; but what I cannot understand is when you were on notice as early as 1963, that sums of money in the special budget were being allocated under categories that directly suggested the money was being spent to secure favorable treatment—the categories cannot possibly suggest anything else—then it was not until 1972 that the company actually undertook to bring a stop to these practices?

Mr. MONROE. The 1963 was a reference in a couple of memos from Dr. Cazzaniga to a member of management. It was not in detail. It was in 1968 the detail set forth here came about.

Senator CHURCH. Even in 1968, then, when the detail made it plain to you the money was being allocated and for what purposes, the company took no action, and it had been advised, and that action was not taken until 1972 when the company knew that in addition to the fund that it allocated for this purpose, between \$19 and \$20 million more was being appropriated by your resident manager.

REDUCTION OF PAYMENTS

Mr. MONROE. Senator, we did do something, we started to reduce them after 1968. We reduced them to \$3.5 million, as I recall, in 1970. We did start doing something. We had a plan to get them down to zero. In 1971, we just ordered them stopped.

Maybe it was a delayed action, but we did start doing something in 1969, we started trying to reduce those expenditures.

Senator CHURCH. Well, even as early as 1966, your auditors expressed concern about lack of management controls over the special budget, so you were on notice not only from the reports that were being made to the company but on notice by your own auditors, and yet nothing was done about this until 1972.

Mr. MONROE. I do not know why that was not responded to. I have no information on that.

Mr. LEVINSON. You say it was in 1971 that you moved to correct it.

JANUARY 26, 1972, LETTER FROM CRUIKSHANK TO CAZZANIGA

If you look at page 103, you have a January 26, 1972, letter from Mr. Cruikshank, who is your European contact director, in which he congratulated Cazzaniga. Let me read it to you.

"Although I commented on the following during your recent brief visit to London, my feelings on the subject are so strong I wish to go on record to confirm them to you.

"During the past week, I have received the three following letters from you:

"The letter of January 12 informing me that the Presidential decree extending the tax reduction on gasoline and automotive, diesel, and fuel oils to June 30, 1972 had been approved.

"Your letter of January 14 in which you advised me of ministerial approval for the continuation of the deferred payment of excise tax for the year 1972.

"Your letter of January 20 in which you informed me that the concession decree for the Trecate Refinery expansion had been received by SARPOM on January 14.

"The success in obtaining satisfactory conclusions to all three problems was essential to the welfare of Esso Standard Italiana. I want you to know that your efforts to conclude them satisfactorily are recognized and very much appreciated by the management of Esso Europe and Jersey."

Really, still in January 1972, Cazzaniga was being congratulated for his achieving the objectives which are all part of the special budget procedure.

Mr. MONROE. Mr. Cruikshank says that when he wrote that congratulatory letter to Dr. Cazzaniga, he had asked him ahead of time, "we have stopped political contributions? There was not any payment," and he was reassured that no payments had been made, and this was the basis on which he wrote this congratulatory letter. He had been assured there was no payments because they had told him earlier there would not be any further contributions to the parties.

SPECIAL FUND

Senator CHURCH. Well, let me go back to this special fund.

Senator CASE. Mr. Chairman, the auditors show that payments were made out of this special fund for a number of years in very substantial amounts, and that the Company, Exxon, knew that these were being made for political purposes.

Mr. MONROE. Most of that information about how it was spent, allocated to these categories, some of it was reported to the European contract in 1969 and 1970. Most of it was developed by the discussion with Dr. Cazzaniga, interviewing him during the audits.

Senator CASE. Thank you. I think the facts that are accumulating will speak for themselves.

Senator CHURCH. I want to go back to the special budget because that was the budget that had been approved by the Exxon management, and the money that was spent through that budget was known to the Exxon Company, and the method, the camouflage, to conceal the payment, the various methods were also known to Exxon.

EXCERPTS FROM AUDITORS' REPORT

Now, beginning on page 66. I am going to read three excerpts from the report of your auditors, the Company's auditors.

On the top of page 66 of this report, which is the audit of the special budget, I read the following:

Payments against the special budget were affected in two ways: A, by processing dummy invoices to gain tax relief on these "business expenses".

To negate the possibility of ESI having to report the names of recipients to the tax authorities and to disguise the fact that Esso was making such payments, dummy invoices were processed through the books of the Company and charged to either administrative or marketing expenses.

Now, if there is any doubt about what that means, I think it is dispelled by the next two paragraphs I am going to read from, and I will read all three together so we get a full picture. The next paragraph is from the same budget audit. It appears on page 71 of the auditors report under the caption "Source of Funds for Special Budget" and it reads:

The justification given for accepting the unusual operations such as the processing of dummy invoices and the bypassing of Company records in an accounting for certain, (interest-rebates, travel rebates,) was that they were necessary to obtain tax relief as business expenses as well as to avoid providing the tax authorities with the names of the recipients or paying deemed tax as recipients in lieu of disclosure.

The final statement of your auditors appears on page 79, referring to the same methods of concealing the disbursements made through the special fund. Reading at the top of the page: "These expenses for the balance sheet of the Italian tax purposes, were reclassified as advertising expenses while for Jersey reporting, they were reclassified as administrative and general expenses."

Now we know that money that was disbursed under these false invoices to various recipients was rebated.

Mr. MONROE. Senator, may I make a comment?

Senator CHURCH. Yes, please do.

Mr. MONROE. The paragraph on 71 that you are reading from, this was the justification given by people in Esso Italiana when the auditors were developing this report, and I have no information that says that type of information was known to Exxon management outside of Esso Italiana before this audit was done. So this was developed during the audit.

Now, on that last, talking about reclassification, in our published accounts we have one broad category of administrative and marketing expenses. This includes our advertising expenses. So I do not quite follow this comment that it was reclassified from advertising to administrative and general because that is where our advertising expenses shows up in our published accounts anyway.

Senator CHURCH. All right, if you have any confusion in your mind on the statement made on page 71, let us confine the question to the earlier two statements by the auditors as the purposes for the false bookkeeping.

TAX RELIEF

They say on page 66, "One of the purposes was to gain tax relief on these business expenses."

Now I can only read that as meaning that by failing to reveal that money was being rebated to the company, the full amount of the pretended disbursement could be taken as a business expense.

Mr. MONROE. That is the way you can interpret that. We are trying to get an explicit tax opinion on whether this statement is right. And we do know, as I mentioned earlier, this affiliate was in a loss position and was not in a tax-paying position most of this time frame, so in fact it did not impact on the taxes. Although this prac-

tice, we are not sure at this time whether it is legal, and when we get the information we will submit it to your counsel.

Senator SYMINGTON. May I ask a question?

Senator CHURCH. Surely.

I wanted to make the comment when your own auditors say one of the purposes of falsifying the books is to obtain tax relief on these "business expenses," when we know that surreptitiously the money that the books showed was being paid out was being returned, there is only one conclusion that can be drawn from that set of facts, and it is that the company was practicing a fraud on the Italian government.

Senator Symington.

Senator SYMINGTON. Thank you.

Mr. Monroe, I have been listening to the testimony at an executive session. Is this the only case of this character that you know of in the Exxon Corp. as controller of the company?

POLITICAL PAYMENTS IN OTHER COUNTRIES

Mr. MONROE. The one large scale political contribution and defalsifications and so forth.

Mr. SYMINGTON. Yes.

Mr. MONROE. As I said last time, we made political contributions in Canada, Senator Symington, and our Imperial affiliate announced those contributions yesterday to the press. I do not know if you saw them in today's press, they announced they had averaged contributions of \$234,000 per over the last 5 years.

Senator SYMINGTON. To what other countries besides this country?

I generally agree with my chairman on matters, but I noticed in the last line he puts in here, giving the Communists a potent weapon to wield against us.

MNCs INFLUENCE ON FOREIGN POLICY AND MILITARY EFFORTS

My interest, based on other committee activities, has to do with how much these multinational corporations as a result of these constructive hearings have influenced foreign policy and military efforts on the part of the United States which, of course, involved a great expenditure of money and also at times considerable expenditure of lives.

I believe it was Mr. Lippmann who said he was tired of seeing old men pass laws that resulted in young Americans dying in battles that were not necessary for the security of the United States.

So I would like to know in detail where you have contributed. If you have so given it to counsel, I will not pursue it.

I just want to mention we have also had testimony from other corporations that where money is given heavily to countries that pride themselves on being totalitarian anti-Communist, I have never quite seen the difference between a totalitarian state just because of a religious position or something of that character. You either have some form of democracy or not. And it is growing on me a great deal of our problem comes from executives who think more of their company than they do of their country. And if that is true, it is a pretty serious indictment of our entire system, but it most certainly, based on pre-

vious testimony, is not just limited to countries that favor the Communist cause. In your case as I remember it, you contributed a relatively small amount to the Communists. In some of these other countries they have contributed very heavy amounts to non-Communist countries.

So I am wondering what your thoughts are about that. Do you plan to give money to some countries? Well, I could name quite a few. Some are named in here in the statement.

PAYMENTS TO OTHER COUNTRIES

One corporation paid heavy to Saudi Arabia. Another corporation, as I remember it, paid heavy to Korea. Neither of those countries in any sense of the term would be considered Communist countries.

Has it been your policy to make more contributions to countries that say, "Yes, we are totalitarian but we are not Communist?"

Mr. MONROE. Senator, our policy is really to minimize this type of activity. I said the Italian one was very unique, an aberration of our policies. Since I have been controller, since 1973, one in Canada in 1974 plus one small one of \$1,000 in another country was all that was made in 1974, and there have been a couple of others in the \$10 to \$15 or \$20,000 range in individual years, and that is it from 1972 to 1974 time frame.

Senator SYMINGTON. You had access to all of the books of the company?

Mr. MONROE. Through my auditors, we have had access to all of the books, yes.

Senator SYMINGTON. Thank you.

DONATIONS TO COMMUNIST PARTY IN ITALY

Senator CHURCH. Do you know why some \$85,000 of the money that the company allocated to political purposes in Italy was apparently donated to the Communist Party in Italy?

Mr. MONROE. Senator, we found this out. We did not approve any contributions to the Communist Party. This apparently was supported by an invoice from the newspaper organization that is closely related to the Communist Party. And we found this out in 1972. We have not been able to ask Dr. Cazzaniga why.

Excuse me, we found this out. The payment was in 1972, I think that is a question Senator Symington had asked at the executive session.

We cannot be sure it got to the newspaper because we found a lot of these funds did recycle back into the unrecorded bank account. But we do not have an answer why he took that action on his own. It was definitely against our policy to contribute to a Communist Party.

Senator CHURCH. I wanted to ask the question so you would have a chance to give us an answer because it strikes us as very odd indeed that Exxon Oil Corp. would be contributing to the Italian Communist movement.

RECYCLED FUNDS

The recycling, however, that you have discovered, that you mentioned in your testimony, really means that even now you cannot be sure how much of this very large sum, between \$45 and \$50 million, actually reached the various political parties and fronts that it is represented to have gone to. You really do not know how much of it actually got to these political parties?

Mr. MONROE. We cannot with any definitive statement say how much was received by which parties because of the way the funds were recycled and redispursed.

DISTRIBUTION OF FUNDS

Senator CHURCH. Furthermore, is it true that you do not know in many cases who received the money, to whom it was paid, that is to say, to what individual it was paid. You have no exact accounting of who passed the money to whom and who got the money and how much was it in each case?

Mr. MONROE. We only have the country manager's word saying where the money or whom the money was distributed to. We have no way to verify this, no receipts in our records to verify it, only one man's word against someone else's.

Senator CHURCH. Is it true in many cases that all you have been told is it went to a particular party or it went to a particular group?

Mr. MONROE. Or to a particular member of the party.

Senator CHURCH. Or to a particular member. So it has been represented to you in various ways?

Mr. MONROE. That is right; that it was political contributions.

Senator CHURCH. Senator Case.

Senator CASE. Wasn't the general corroboration that these contributions did go to political parties that, in the wake of your decision to cut it out, the parties kept on asking you for the money that they used to get from you?

Mr. MONROE. That was corroboration, they were getting some of the money. How much we could not verify. But they were obviously getting quite a bit from us because they continued to put pressure on our new management to resume political contributions on a large scale.

Senator CASE. Were amounts mentioned?

Mr. MONROE. I do not know. I do not think specific amounts were mentioned. They could have been, Senator Case. We know they passed this law that annually \$75 million goes for subsidizing the political parties, and on election years up to \$100 million, that it is an expensive apparatus there supporting political parties in Italy. So they were getting a—

BEGINNING OF GOVERNMENTAL CONTRIBUTIONS

Senator CASE. When was the public contributions system set up?

Mr. MONROE. I am sorry—

Senator CASE. When was the governmental contributions system set up? When did they start this?

Mr. KERSEY. Senator, this was enacted in May of 1974 by an act of the Italian Parliament, providing for, among other things, subsidies of political parties.

Senator CASE. So that in 1972 and 1973, after you stopped paying contributions, or at least the company policy was to stop, they were still hounding you for money?

Mr. MONROE. They were still hounding us for money and our understanding is other businesses continued to contribute. We were swimming upstream in 1972 when we cut these out.

Senator CASE. They got none without further new money from Exxon being used?

Mr. MONROE. I am sorry.

Senator CASE. There may have been recycling of funds that went into this thing, I suppose?

Mr. MONROE. I have no knowledge of funds recycling into it.

Senator CASE. How about contributions that your man collected from other companies?

Mr. MONROE. I have no knowledge that he collected?

Senator CASE. He did do that, did he not?

Mr. MONROE. There apparently is some evidence that the Parliamentary Commission has developed that he did do that, but I have not seen that and it did not come out in any of our audits.

Mr. KERSEY. Senator, I do not believe Mr. Monroe heard your statement in terms of being hounded by the political parties.

Senator CASE. He answered it. If he wants to change that, I will let him.

Mr. MONROE. All I know is right after we stopped them in 1972, the new management was pressured to resume them, and I do not know if this pressure continued.

Senator CASE. Was that the point you wanted to make?

Mr. KERSEY. Yes.

Senator CASE. It was a one time thing and not a continuous thing.

Mr. KERSEY. We have no information as to 1973 or could we characterize this really as being hounded by political parties.

COMPANY KNOWLEDGE OF BRIBERY

Senator CASE. As you reconstruct it, you did not know anything about such payments, either of you, at this time?

Mr. MONROE. No, sir.

Senator CASE. You did not know anything about this?

Mr. KERSEY. No, Senator. I knew about it after March of 1972, and that is also the case with Mr. Monroe.

Senator CASE. As you reconstructed this, have you discovered whether at any level in the company there was suspicion that some of this money might have been just plain old-fashioned bribery as opposed to things that are strange to us in the way of supporting a political system but, nevertheless, more or less recognized as support of a political system?

Mr. MONROE. Most of the things we have reconstructed are based off of this one individual where he maintained they were for political

contributions, that bribery was not involved. We do know of a couple of cases where we have other people saying that there was such involved. At that point we have his word against the other individual's word that there is possible——

Senator CASE. In any event, there is the general recognition that the company was interested in certain political actions of the kind that were mentioned in the questioning already this morning, for which your European representative thanked the doctor for his successful involvement. If there is nothing more specific than that, we have to let the thing rest on the facts that we do have.

ALLOCATION OF FUNDS

Mr. LEVINSON. There is something more specific, Senator Case. If I might just elaborate on your point. Your auditors' reports states explicitly "certain records were kept by them" meaning, ESI, showing how funds were spent: These records show a wide range of recipients and purposes, principally to individual politicians and ministries. While some of the payments were clearly considered for advantages available to ESI defiscalization, deferred payments et cetera, we are not in a position to establish whether the other payments made were for the purpose stated, were received by the persons indicated, or achieved the objectives purported.

In various interviews with Dr. Cazzaniga and Mr. Jester, we were unable to obtain information on these payments sufficient to enable us to have the level of payments reviewed by those who are knowledgeable of "the prices to be paid for specific favors, or to ascertain that the favors paid for had actually been received."

POLITICAL FAVORS

So actually your own auditors say that the individual politicians and ministers were being paid off for specific favors. The only thing they can't establish is whether the price paid was right and when the guy actually got the money, but there are records, and that the purpose was to pay off to get a favor is absolutely clear from your own auditors' statement.

Mr. MONROE. That's the information they developed during the audit, Jerry. We do not have sufficient evidence that would stand up in a court to support that. I think the parliamentary commission is looking into this and probably will be able to get sufficient evidence if there was such going on.

Mr. LEVINSON. The only point that I want to make, that Senator Case developed, was simply it isn't that we don't know. There are some things that we don't know, but your own auditor report is explicit: The purpose of payments was to obtain specific favors. The auditors are not satisfied that they can document that the favors were in fact received but that the intent and purport of the payments was to obtain favors seems absolutely clear from your auditor's report.

Mr. MONROE. Yes, sir; this was developed during the audit.

Mr. LEVINSON. Yes.

Mr. MONROE. In 1972. Not that we had that necessarily ahead of time.

Mr. LEVINSON. Indeed, if you look at page 70, you will find where they refer to categories of special fuel supply, excise tax, Suez extra charges. These were precisely the categories which are tracked by the magistrate's investigation in Italy.

So when you say in your statement on page 5, that the procedure itself raises the question as to whether these objectives were special favors so tied to the contributions as to make them improper, as opposed to being simply business objectives which could best be achieved in favorable business environment, doesn't your own auditor report answer the question that in fact the objectives were special favors specifically tied to the contributions so as to make them improper?

That is not something that we concluded but that your own auditors so state in black and white in your own report?

Mr. MONROE. That's what they state, Mr. Levinson. I don't think they have documentary evidence that there was disagreement ahead of time between the country manager and some individual politician that would stand up. Maybe the Parliamentary Commission will find this information. They have more access to subpoena power to get information than we have. We were investigating a management control problem when we went into this situation and not political contributions per se. All of this came out of our total investigation.

AUDITOR'S RECOMMENDATION

Mr. LEVINSON. I mean it's perfectly clear that the audit report, from the point of view of a cost benefit analysis, if you turn to page 75, you see that the auditor's recommend a review which should include: "the (1) economics of the procedure, whether the costs versus the expected gains, including any tax effect, the need to shield the identity of the recipient and the purpose of payment, the practical difficulties of insuring the secrecy of the payor or payee, but at the same time setting up a control procedure to obtain reasonable assurance that payment in the amount authorized has been made to the person intended and that benefits have accrued from the payments made."

This is quoting your report. We understand that special payments are invariably required in cash or local currency, receipts are never given, and are usually made through third parties, example, a situation which is virtually impossible to control the normal concept of business transactions.

PROCEDURES FOR PAYMENTS

Then it goes on to say, "However, should it be necessary to continue to make such payments in the future, we will assist in developing possibly separate procedure for minor payments up to \$1,000 each which will afford the best control possible under the circumstances."

In other words, what is in question is not the purpose but the question when you can control it; isn't it?

Mr. MONROE. You left out a very important sentence. Go back to the very first paragraph. "We recommend that Esso Italy formally reevaluate the need for making special payments in Italy." This evaluation should include these. It didn't say they should do it, it said they should reevaluate it.

Mr. LEVINSON. And the criteria being reevaluated is when the inability to control, given the procedural modalities that are used, are worth the benefits that you get, and if you want to continue it you will help in developing better procedures, but there is never any doubt here about the appropriate way of seeking the objective and the objective specific business advantage for Exxon itself not helping the general democratic political procedures or any other such generality. What we have got is a situation in which you are paying to get something and your auditors are in doubt as to when you can evidence the fact that what you are paying for you're actually getting, and there isn't any doubt that it's indeed this system of payments that has been approved because on page 65 of the Collado report, or page 57, excuse me, he says, very explicitly, that it was also learned by investigators that the basic mechanism used by Dr. Cazzaniga, secret bank accounts, the false invoice, and the kickbacks, for these unauthorized purposes, meaning for his personal side deals, had been in use for years for the authorized purpose of making concealed political contributions in Italy.

Mr. MONROE. Mr. Levinson, may I go back and make one comment?

This was the attitude in 1972 of the auditors. I can assure you that is not the attitude today of the company. I can't say that it was then, even though that's the way it's reflected in the report, but I can assure you that's not the attitude of the corporation or the controller today.

EXXON BUSINESS IN SOUTH AMERICA

Senator SYMINGTON. Mr. Monroe, do you do any business in Central or South America?

Mr. MONROE. We are in South America, almost throughout South America. We are in Central America, yes.

Senator SYMINGTON. Have you made any political contributions of any kind in those countries?

Mr. MONROE. Not to my knowledge, Senator Symington.

Senator SYMINGTON. Well, would you check that out and if you will for the record when you have or not?

Mr. MONROE. We have checked it out for 1974, and we did not make any in 1974.

How many years would you want us to go back? It would take quite a bit of time.

Senator SYMINGTON. Well, presumably audit would show it. You might go back 3 or 4 years.

Mr. MONROE. Let me take a look and see what we can develop.

EXXON BUSINESS IN BRAZIL

Senator SYMINGTON. I do appreciate it.

You do business in Brazil?

Mr. MONROE. Yes.

Senator SYMINGTON. You do a lot of business in Brazil?

Mr. MONROE. Yes. I forget the volume. We are a pretty good size marketer there, yes.

ALTERNATE ENERGY POSSIBILITIES

Senator SYMINGTON. Have you covered the possibility of an oil shortage by investments in such other potential energy user facilities such as coal? You have coal interests?

Mr. MONROE. We have coal interests in this country, yes.

NUCLEAR ENERGY

Senator SYMINGTON. And have you any interests in any nuclear —

Mr. MONROE. We have a nuclear fabrication facility in Richland, Wash., and we have some uranium mining facilities in, I believe, Wyoming, Highland Mine in Wyoming.

Senator SYMINGTON. Have you any interests in uranium in Brazil?

Mr. MONROE. No, sir; we do not.

Senator SYMINGTON. You have no interest of any kind in their development of that character?

Mr. MONROE. Not to my knowledge, sir. I would have to check that point to be absolutely sure.

Senator SYMINGTON. If you would do so.

When you get involved in other potential sources of energy, do you take that up with the State Department or do you do it on your own.

Mr. MONROE. I don't know that we take it up with the State Department. We may advise them of our activities, but I'm not positive.

GERMAN URANIUM DEAL WITH BRAZIL

Senator SYMINGTON. My personal opinion is that the German uranium deal with Brazil, for the first time a complete proliferation nuclear enrichment cycle, not only plutonium but also the enrichment of uranium itself, could be the most dangerous single development to the world's security in recent times; and we don't seem to be able to find out how it happened. The State Department tells us that they protested it bitterly. The Chancellor of Germany said he didn't get a single protest from this country. I was wondering if there was any way you were involved in that along with your oil business or coal business or nuclear business in Brazil.

Mr. MONROE. Not to my knowledge. I don't think we have any involvement in the uranium business in Brazil. We are in the oil business and we have some petrochemical business in Brazil. That's the extent of our business there.

Senator SYMINGTON. Will you check that?

Mr. MONROE. Yes, sir.

Senator SYMINGTON. I'm sure you have given us your knowledge, but would you check that and let us know?

Mr. MONROE. I would be glad to.

COMPANIES OPENNESS IN HEARINGS

Senator CHURCH. Mr. Monroe, if there has been any saving grace in the disclosures of the bribes and payoffs, the political contributions that have been made, as a result of the investigation of this subcommittee, it has been that those companies that have been investigated have made a clean breast of it. There has been no effort to conceal the fact once we reached the point of a hearing.

Now you have made a statement in the way of a disclosure and we have questioned you about it. You have made the internal audit report and supporting documents available to the staff at the request of the subcommittee in order that we could understand what went on, in order that we could ask questions concerning it.

Now this subcommittee has no interest in reviewing portions of this audit that are unrelated to the subject under investigation. We recognize your right as a business organization to be protected against an unreasonable fishing expedition by the general publication of documents that have been furnished for the purpose of looking into this Italian matter.

REVELATION OF PERTINENT INFORMATION

I would like to propose to you, in such as our references to this audit have been confined strictly to the matter under investigation, that we review the audit with you to exclude from it portions that do not deal with the subject under investigation for the purpose of then including the pertinent parts of the auditor's report in the record. I think that this should be done. I recommend strongly that you agree to that procedure so we may say to Exxon, as we have been able to say of the other companies, that a full disclosure of the questionable actions under investigation has been made by the company. I think its in the interest of Exxon as it's been in the interest of other companies to do that, on the understanding that extraneous matter would be excluded.

Mr. MONROE. We appreciate that and we will be delighted to work with your staff to go through and get the pertinent information.

Senator CHURCH. Very well.

VIEWS OF SENATOR PERCY

Senator PERCY. Mr. Chairman, I will be very brief because we are due on the floor, I understand.

I have already expressed myself publicly in these hearings, Mr. Monroe, on the impact of the corruption on the function of our social and economic system. My views have not changed. But to reiterate them again today I think would just take valuable time.

I'm impressed, Mr. Chairman, by the 1972 policy statement appended to Mr. Monroe's testimony. I think it's a fine piece of guidance that should be enscribed on the board room walls of all our American corporations, and I would like to just quote from that statement.

The policy of this company is strict observance of all laws which may be applicable to its business. Even where the law is permissive, Jersey chooses the course of highest integrity. Honesty is not subject to criticism in any culture. A well-founded reputation for scrupulous dealing is a priceless company asset.

I don't know how you can improve on that, and I think it ought to be strictly enforced and observed. There are times when policies of companies simply aren't enforced. Here certainly, we have renewed evidence that management needs to follow through and make absolutely certain, not have just blind faith in people, that its orders are carried out.

I think if this guidance were enforced in board rooms in this Nation, there would be no reason for our presence here today at all. Behind

these words is the fundamental understanding that the means we use to achieve our objectives in this world define the type of world we are going to live in. I think this is the lesson this country has learned in Watergate, and I think it's the very revelant question that we have been addressing ourselves to in these hearings, and the lessons we can get out of these hearings.

My questions are very brief because I think most of the questions I had in my mind have been previously covered this morning.

In your statement you mentioned that the company's investigation covered the year 1963 through early 1972. Over what years was Mr. Cazzaniga president of your Italian affiliate? Was he in a position previous to that time which allowed him to control substantial money flows?

Mr. MONROE. He was president of our affiliate for about 20 years, Senator Percy, and prior to that I believe was vice president of marketing operations. I don't think at the time he would have been responsible for control of large funds in that position, but he was managing director for 20 in our corporation, quite a long time.

CAZZANIGA ACTIVITIES PRIOR TO 1963

Senator PERCY. Do you have any assurance that Mr. Cazzaniga's unofficial activities did not predate 1963?

Mr. MONROE. No, we have no basis to conclude it did or did not. We just went back to 1963. Nine years is a long time to go back and develop an investigation, and we had a massive job on our hands. Your records generally become fairly sparse after ten years in your corporation retention files.

Senator PERCY. Do you have any idea what the level of contribution was between 1945 and 1963? Have you totaled up what the commulative figure would be for political contributions?

Mr. MONROE. I have no idea what the amounts were back in this time frame. I know they started at \$760,000 in 1963 and grew steadily thereafter. So I would assume they were much smaller but I could not say for sure.

Senator PERCY. During this period, 1963 to 1972, was not the profit in international oil essentially made at its source? Would not, therefore, Italy only be important as a market outlet and not an important profit center? Isn't that a correct assertion?

Mr. MONROE. In the foreign operations there are downstreams what we call the downstreams. The marketing and refining operations were in a poor profit position. There were profits in the upstream. Italy was a market for our crudes from Libya and elsewhere in the Mideast; that is correct.

KNOWLEDGE OF U.S. GOVERNMENT REGARDING CONTRIBUTIONS

Senator PERCY. Was the U.S. Government ever informed of your political contributions in Italy? If so, what was the Government's reaction? Who was the U.S. Ambassador to Italy during this time period?

Mr. MONROE. As I think I reported last time, to our knowledge we never talked to the American Ambassador in Italy about our political contributions until 1972 when we uncovered the problem, and we went

over and reviewed the problem which we had uncovered with him at that time. Prior to that we have no record of anybody having a discussion with the Ambassador on political contributions.

Senator PERCY. And the Ambassador then was whom?

Mr. MONROE. Mr. Martin, I believe, in 1972, and we talked to him about the management problem we had, the management control problem.

Senator PERCY. Did you make as full a disclosure to him as you could of all the information that you had?

Mr. MONROE. To my knowledge, we kept him apprised on these significant developments, the amount of contributions. I think we told him and the actions we were taking against the individual and other things, but not in the depth that—

REACTION OF U.S. AMBASSADOR TO ITALY

Senator PERCY. He was well aware of what you were doing then. What kind of reaction did he give to you?

Mr. MONROE. I'm sorry, I don't know what reaction he had. I think Mr. Levinson had a reaction. He reported earlier about the size. Was that you?

Mr. PERCY. About what?

Mr. LEVINSON. In the interviews I had in Madrid and Rome, the reaction reported to me was it was a "nice slice of the pie" that the parties were getting and, therefore, the parties were not as bad off as they represented to the Embassy.

Senator PERCY. There was no disapproval that you know of evidenced?

Mr. LEVINSON. No. According to the interviews with the people who were given knowledge, no. As a matter of fact, they were not surprised nor did they evidence any judgment as to the wisdom, unwisdom, or diversibility?

Senator PERCY. Were these contributions made directly by Exxon or through a third party such as a trade association?

Mr. MONROE. The contributions were made by Esso Italiana, our local affiliate. Dr. Cazzaniga was making payments to some of these front organizations which I gather then redistributed the money and some of them by direct cash payments to individuals and parties.

Senator PERCY. How was the company informed of the level of the contributions?

Mr. MONROE. Each year Dr. Cazzaniga would review with his contact in the management structure the amount of money he was going to spend for the following year on political contributions. In 1968, in the documents that you have, it was reported by a letter from Dr. Cazzaniga to the controller in London, the amounts that he was going to spend for 1969 and showing how much he had spent for 1968 and 1967.

Senator PERCY. Do you happen to know if the association that was the conduit continued to make political contributions to the parties after Exxon ceased its own contributions?

Mr. MONROE. Senator Percy, I don't know that they were a direct conduit of funds. We didn't develop any such knowledge in our investigation. We know of their letter that came out in 1972 that implied

that, and I don't know what their activities have been since our investigation.

Senator PERCY. You have no knowledge, direct or indirect, as to whether the association continued to make contributions after Exxon ceased its contributions?

Mr. MONROE. My knowledge is that the association per se never made contributions. The companies were making contributions and that other companies continued to make contributions. I don't have knowledge that they were funneled through the association.

UNIONE PETROLIFERA

Counsel recalls that in the early 1972, our country manager, he was also head of the Unione Petrolifera, that he incurred an overdrafts for their account to make some contributions for the account of the Unione Petrolifera, that the companies had to settle up that overdraft in 1972. But that is the only knowledge, and this was an action he took similar to some he took for us, apparently.

KNOWLEDGE OF U.S. AMBASSADOR OF ACTIVITIES AFTER 1972 INVESTIGATION

Senator PERCY. Lastly, do you have any knowledge, directly or indirectly, that would help us understand what involvement or part, if any, the American Ambassador had in this? Did he have knowledge of continuing activities?

Mr. MONROE. After our investigation in 1972?

Senator PERCY. Yes.

Mr. MONROE. I have no knowledge of his involvement or understanding of it from that point on, no, sir.

Senator PERCY. Thank you, Mr. Chairman. Thank you.

REVELATION OF PRINCIPAL GROUPS RECEIVING CONTRIBUTIONS

Senator CHURCH. Mr. Monroe, in accordance with the advice that you received that the committee would make public the names of the principal groups that received the contributions, and also in line with the questioning that has already occurred concerning the special budget and various allocations between 1967 and 1971, I propose that this information which appears on pages 83 and 77, respectively, of the budget be made public at the close of the hearings today. All of it is related to the question under investigation.

Mr. MONROE. May I remind the chairman again that this is a list that the invoices totaled up to. We know at least half of those funds came back and it's not an accurate portrayal.

Senator CHURCH. I understand that. I think your representation here that at least half of the money that appears to have been given under the budget in actuality was surreptitiously returned to the company had been emphasized.

Mr. MONROE. Returned to unrecorded bank accounts, not the company.

Senator CHURCH. Returned to unrecorded banks accounts and used for purposes not now known; is that correct?

Mr. MONROE. He claims they were political contributions. We cannot verify that.

Senator CHURCH. But you cannot verify his claim the returned money was also used for political purposes.

I think the record is straight on that and with that understanding, these two pages from the budget will be made public at the close of the hearings.

I don't think I have any further questions.

[The information referred to and additional documents follow:]

[Subcommittee staff note: Sections of this report have not been made public.]

STANDARD OIL COMPANY (NEW JERSEY)

REPORT TO BOARD AUDIT COMMITTEE

**REPORT ON SPECIAL AUDIT AND
INVESTIGATION IN ITALY**

October 17, 1972

JERSEY PROPRIETARY

Jersey ProprietaryReport to Board Audit CommitteeReport on Special Audit
and Investigation in ItalySummaryI. Background

The Board Audit Committee members were first advised of certain developments which appeared to be of material significance to our L.N.G. business in Italy by a memo dated March 30, 1972 from Mr. R. E. Mays. Subsequently at a special Board Audit Committee meeting on April 25, 1972, an interim report was presented on the special audit in progress in Italy.

The attached report and my report to the Board Audit Committee on April 25th contain details as to events of disclosure of the secret L.N.G. side agreements which Dr. V. Cazzaniga, then President of Esso Standard Italiana had made with S.N.A.M., with whom we have L.N.G. contracts. In my report of April 25th you were also informed that unrecorded ESI bank overdrafts of about \$19MM had been discovered.

Considerable audit and investigative effort has continued. The audit of the L.N.G. and related matters has been essentially completed.

II. Findings of Special Audit and Investigation

A number of irregular activities in addition to those reported to you on April 25th have been found which are summarized as follows:

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1. Special Payments

Dr. Cazzaniga had maintained that it was necessary to make payments to political parties and individuals as part of doing business in Italy. Such payments made by ESI as reported to Esso Europe and/or Jersey managements totaled \$29MM over the 10 year period reviewed (1963-1972). The audit revealed that Dr. Cazzaniga had in addition expended in excess of \$25MM for unreported payments over the same period.

The methods used to generate funds for the unreported payments were secret overdrafts with banks, processing of "dummy invoices" and kickbacks on crude and product purchases and sales agreements.

In addition to the payments mentioned above, further commitments and contingent liabilities entered into by Dr. Cazzaniga have been discovered totaling \$17.5MM.

2. L.N.G. (Liquified Natural Gas)

At the time of the April 25th Board Audit Committee meeting it appeared that no one in Jersey or Esso International knew of the existence of any of the secret L.N.G. side agreements with S.N.A.M. However, our audit and investigative work in New York has revealed that several people in Jersey and affiliate companies had information concerning existence of some of these agreements prior to the actual disbursements made under such agreements. This information apparently did not reach the appropriate Jersey executives. We believe that if this had happened, it potentially could have resulted in significant savings.

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ESI and Esso International have commenced arbitration proceedings in Zurich, Switzerland, against S.N.A.M.

3. Purchases and Sales Arrangements

In addition to the kickback arrangements previously commented on, it was disclosed that commissions were paid on sales that never took place, and some processing fees were paid for processing services never provided.

4. Unauthorized Investments

The audit disclosed a number of unauthorized investments totaling \$14.6MM that Dr. Cazzaniga made on behalf of ESI in non-petroleum activities.

5. L.P.G. (Liquified Petroleum Gas)

We now have evidence that indicates that Dr. Cazzaniga may have been a major stockholder in Liquigas, a company that purchases L.P.G. from ESI, and may have used his position in Esso and Esso's money and credit to increase the value of his ownership in that company.

6. Marketing Operations

In an audit of service station construction the auditors found examples of purposeful misrepresentations to Esso Europe management and false accounting to disguise projects not economically justified.

III. Conclusions

As a result of the audit and investigation we have concluded that Dr. Cazzaniga took actions detrimental to the Company and which could have resulted in personal gain to himself. We have requested a legal opinion as to whether the evidence we have is sufficient basis for legal action against Dr. Cazzaniga.

-4-

The principal factor which permitted the irregularities to occur and remain undiscovered for such a long period of time was the fact that higher levels of management in both the Region and in Jersey condoned the falsification of records to obtain funds for confidential special payments.

The chances of the irregularities being discovered were minimized because of the apparent unlimited power which Dr. Cazzaniga had for an extended period of time. Some time over this period he should have been given an assignment elsewhere, even if temporary, to break the continuity. When Dr. Cazzaniga was removed as Managing Director of ESI in March 1972 he was left as Managing Director of RASION. In this capacity he made at least one other unauthorized commitment, expected to cost the Company \$685,000.

In respect to the audit coverage, in our opinion, both Price Waterhouse and the Esso Europe Internal Auditors provided the financial and internal audit coverage normally expected.

IV. Recommendations

Numerous recommendations designed to restore an acceptable degree of control in ESI have been made by the auditors and others both in Europe and New York. The majority of these recommendations have been accepted and are in the course of being implemented.

Among the areas in which we have been informed that action is under way are: restructuring of ESI by-laws and board resolutions designed to prevent any one person from taking independent action in areas where more control is necessary; putting banks and certain other third parties on notice as to these restrictions; taking measures to assure that no false documentation will be accepted or prepared within the Company; re-emphasizing within ESI Controller's

-5-

Department the need to strictly adhere to all internal procedures and policies; tightening up internal controls throughout the Company; initiating studies to determine the disposition of the unauthorized real estate investments; reducing capital budgets to a minimum pending reassessment of our future strategy in that country, and the imposition of strict controls over capital investments.

Additional recommendations will be pursued including better definition of regional coordination and review responsibilities, and the rotation of persons who helped Dr. Cazzaniga carry out his unauthorized actions and who are in sensitive positions.

III. Conclusions

1. Copies of correspondence and other evidence in our possession indicate that Dr. Cazzaniga took actions which in our opinion were not only detrimental to the Company but also could have resulted in personal gain to himself, both monetarily and by increasing his stature and influence.

We have requested a legal opinion as to whether this evidence is sufficient basis for legal action against Dr. Cazzaniga.

2. The internal controls within the Company had been circumvented with the result that:
 - a) Bogus documentation and false accounting were accepted by many levels of management. Thus, the entire control system was rendered ineffective as it was virtually impossible under the circumstances to verify the validity of specific transactions. This also negated the possibility of effective cost reviews or financial analyses by the regional office.
 - b) Funds were generated by certain ESI employees at the request of Dr. Cazzaniga. The methods and practices used to provide funds were of an irregular nature and violated Company policies and practices. We feel that such practices resulted in many personnel circumventing or ignoring controls they were responsible for implementing.
 - c) Investments were made without budgetary review or approval.
3. The audit has attempted to identify the factors that contributed to and permitted the irregularities to occur and remain undiscovered for such a long period of time. These are:

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- a) The principal factor was Jersey and Regional Managements' condoning the falsification of records to create funds for confidential special payments. In so doing the Controller and other key personnel were subverted in properly carrying out financial and reporting control functions. Thus, the internal control system was rendered ineffective.
- b) The chances of secret and unauthorized transactions being discovered were minimized because of the centralization of apparent unlimited power in the hands of one individual for an extended period of time. Dr. Cazzaniga, a very strong and forceful individual, had been in his position with the Company so long, and had built up his image both within the Company and outside to such an extent that it was difficult to control his actions. However, it seems obvious now that sometime over this long period he should have been given an assignment elsewhere, if only of a temporary nature, in order to break the continuity of his almost unlimited control over the entire organization.
- c) We believe that the "mind and management" philosophy, which led to a "mild coordination" approach in overseeing operations in the European affiliates, has been over-emphasized to the detriment of management control. As a result of this audit, it is our opinion that the regional headquarters groups have not had sufficient in-depth involvement with the activities of the affiliates to properly carry out the necessary surveillance and guidance.

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As an example of the foregoing, we would like to see the Esso Europe Controller's organization play a stronger role in both guiding and evaluating the effectiveness of the affiliates' controller's functions.

The recommendations of the Jersey General Auditor made to the Esso Europe Controller regarding contract committees, contract procedure guides, and other management controls, have not been implemented to any significant degree.

- d) The decision not to relieve Dr. Cazzaniga of all his responsibilities and authority when he was removed as Managing Director of ESI in March 1972, has apparently cost the Company at least an additional \$685,000. Removal from all official capacities was considered in April and the Jersey Controller recommended that all of Dr. Cazzaniga's power be removed and that all of his official connections with the Company be severed, but this was not done. On May 5th, as Managing Director of RASIOM, he made a commitment that a payment be made by it to Confindustria, an industrial chamber of commerce organization, for \$685,000.
4. With regard to the role of the outside auditors, in our opinion, Price Waterhouse provided the financial audit coverage normally expected for Jersey certification requirements. After their disclosure to Jersey management in 1968 of unrecorded bank accounts and their suspicion of the "special" payments, they increased their bank confirmation tests to include 100% of all affiliates of ESI whether examined that year or not. This extended procedure did not bring to light the existence of any other unrecorded banking arrangements. Confirmation requests were sent to banks which were subsequently

or Assistant, visited Europe for more comprehensive coordination and reviews with the Regional General Auditor. These trips included visits to locations where audits were in progress or just completed to participate in the Regional General Auditor's reviews of audit performance and meetings to discuss audit findings with affiliate management. Our conclusions from these trips were that internal control coverage was adequate although, as you know from previous annual reports, I have often expressed the opinion that there was a need for additional and more experienced auditors.

With regard to Italy, the internal audit coverage of the specific areas examined seems to have been adequate for a normal situation. Looking back, it may have been a costly mistake to consider the "Special Budget" too sensitive to disclose to anyone below the level of the Regional General Auditor. Disclosure to the auditor responsible for day-to-day supervision of the audits might have resulted in more thorough investigation of transactions that, at the time, appeared bona fide but which since have been proven false.

IV. Recommendations to Management and Corrective Measures Taken

Numerous recommendations designed to restore an acceptable degree of control in ESI have been or will be made by the auditors and management both in Europe and New York. The more significant ones and our comments with respect to the actions taken are as follows:

1. Esso Europe internal auditors recommended that the by-laws of each Italian company be changed to provide for 2 or more Managing Directors. This allows for the establishment of controls to prevent one person (formerly the sole Managing Director) from taking independent actions in areas where more control is considered necessary.

August 2, 1963

To Mr. M. W. Johnson

Employee Relations Budget - 1963

Dear Johnnie:

With reference to our conversation in New York last June, we are now in a position to estimate that the special above mentioned budget will amount for 1963 to about \$600,000 to take care of the different initiatives, some of which have already been finalized and some under way.

Yours sincerely,

/s/ V. Cazzaniga

December 22, 1964

To Mr. M. W. Johnson

Special Public Relations Expenses 1964

Dear Johnnie:

As you know, we had to face in 1964 special events which required some strong supportive public relations actions at all levels. We succeeded in obtaining as industry, the deferred payment of taxes and the turnover taxes adjusted on Mogas, which increased our margin both on regular and premium.

We had also to take the proper actions regarding the Quiliano Terminal, our move to Rome, and support the clarification of TAL negotiations.

Our special PR expenses for 1964 have amounted to about \$980,000 as compared with the amount of \$650,000 that we supported in 1963.

At the first opportunity, I would like to discuss with you some of the special items above mentioned, and particularly the one concerning TAL; for which there might be the possibility of recovering part of the expenses from the TAL Company on a confidential basis.

Yours very truly,

/s/ V. Cazzaniga

Trans Alpine pipeline

January 14, 1972

Mr. H. T. Cruikshank

Deferred Payment of Taxes

Dear Harold:

Further to my telex of December 30, 1971, I enclose translation of the inter-ministerial decree of the same date whereby the Minister of Finance, in agreement with the Minister of the Treasury, and of the Budget and Economic Planning states the modalities for the oil companies to be granted, also in 1973, the deferred payment of taxes.

According to this decree, the Ministry of Finance was apportioned the 550 billion lira ceiling to the various companies, taking as the basis the amount of taxes paid by each company during the period October 1 - September 30, 1971.

Waiting for such computation to be made and on a provisional basis, the apportioning for the first quarter shall be effected according to last year's apportioning reduced by 1%. The net effect for our company is a saving of 89.4 billion lira for the first quarter, and is estimated at about 86 billion for the balance of 1972.

While the reduction for the first quarter is practically negligible, the negative effect of the reduction for the three remaining quarters may be estimated in the region of \$160,000.

Accordingly, the benefit of this low cost financing versus normal financing at current rates remains only marginally reduced. Its amount for 1972 may be estimated in the region of \$5.15 million.

Yours Sincerely,

/s/ V. Cazzaniga

cc: J.D. McQuage
D. J. Thompson
S. J. Vastola, Jr.
L. O. Banyon, Jr. (Govt. Relations)

SPECIAL BUDGET 1967-1971

Comparison of Approved Budget Allocated to
Named Projects and Expenditures Reported by Dr. Cazzaniga
(figures in US\$ at shown exchange rates)

Foot

(Y) Expenditures as allocated and reported by Dr. Cazzaniga

(X) Budget approved by Esso Europe Management

	1971	1970	1969	1968	1967
Exchange rates:	at 600	at 625	at 625	at 625	at 625
A) Special Fuel Oil Supply to Power Plants	150,000 (150,000)	90,000 (-)	1,500,000 (1,500,000)	660,000	64,000
B) Civitavecchia/Flumicino		231,000 (300,000)	100,000 (200,000)	82,000	114,000
C) Paninonlie		71,000 (200,000)	600,000 (600,000)	8,000	1,118,000
D) Deferred Payment	850,000 (850,000)	900,000 (500,000)	500,000 (700,000)	1,114,000	258,000
E) Reduced Taxation on Gasoil used as Heating Oil	100,000 (100,000)	135,000 (100,000)	200,000 (300,000)	760,000	979,000
F) Importation of Natural Gas		-	200,000	717,000	329,000
G) Refinery Licenses	350,000 (350,000)	375,000 (300,000)	300,000 (500,000)	520,000	
H) Suez Extra Charges Reimbursement	350,000 (500,000)	-	900,000 (900,000)	813,000	
I) Positions on Highways	400,000 (400,000)	600,000 (500,000)	100,000 (200,000)	16,000	
L) Miscellaneous - Sicily	150,000 (150,000)	225,000 (200,000)	100,000 (200,000)	40,000	65,000
M) Miscellaneous - Italy	150,000 (150,000)	260,000 (200,000)	698,000 (300,000)	513,000	643,000
N) Dredging - Augusta		350,000 (300,000)			
O) Tax Legislation	500,000 (500,000)				
P) Price Method					
X) Deemed Interest	615,000 (500,000)				
Z) Capital Item			645,000		
TOTAL SPENT R (see Schedule III except that exchange rate is there constant at L. 575 = 1)	3,595,194	3,247,920	5,343,300	5,420,025	3,602,430
(BUDGET)	(3,650,000)	(3,000,000)	(5,400,000)	?	?
TOTAL ALLOCATED	3,615,000	3,248,000	5,343,000	5,363,000	3,600,000

PART III

INTERNAL AUDIT REPORT OF THE SPECIAL BUDGET/SPECIAL
BUDGET BANK ACCOUNT OF ESSO ITALIANA, AUG. 30,
1972

ESSO EUROPE INC.

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Italy.

30 August 1972

INTERNAL AUDIT PE 72/10
SPECIAL BUDGET/SPECIAL
BUDGET BANK ACCOUNT

Dear Mr. Sala,

We have completed our audit of the Special Budget and the Special Budget bank account. Our audit took place from April 1972 to July 1972 and covered the period 1963 to March 31, 1972.

Our work included an evaluation of the controls exercised over these expenditures, discussions with Dr. Cazzaniga, who authorized each payment, and ESI personnel who processed payments against this budget, and an examination of the utilization of disbursements for the period 1963 to 1972.

Our conclusions are as follows:-

1. The Special budget was created to control payments which, by their nature could not be accurately recorded on the books of the Italian Company. Although such payments had been made since 1948 no formalized procedure was introduced to control the amount of these expenditures until 1964 when ESI management, the SONI General Auditor and the then Jersey Contact Executive for Italy agreed upon the procedure which became known as the Special Budget. From 1963 to 1972 \$ 29 MM was disbursed against this budget.
2. The Special Budget was an illusion. The reports and controls used by ESI, Esso Europe and Jersey managements to monitor these expenditures were ineffective in that:
 - a) Payments within the Budget were in some cases used for purposes other than those reported to Esso Europe management.
 - b) In addition to the \$ 29 MM budgeted for such purposes, a further estimated \$ 30 MM was expended for payments of the same nature and charged to expenses or against capital projects.

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3. Payments against the Special Budget were effected in two ways:
 - a) by processing dummy invoices. To gain tax relief on these "business expenses", to negate the possibility of ESI having to report the names of recipients to the tax authorities and to disguise the fact that Esso was making such payments, dummy invoices were processed through the books of the Company and charged to either Administrative or Marketing Expense.
 - b) by processing cash payment requests with no supporting documentation (A-Z payments). These payments were made from a bank account not recorded on the books of the Company, to a company employee, usually the Assistant to the President, who then passed them on to the appropriate person/organization on the President's instructions. The bank account was operated jointly by the Comptroller's and Treasurer's Departments.
4. In many instances amounts paid to persons/organizations which provided dummy invoices were returned to Dr. Cazzaniga for other uses. At the time of our audit Mr. Jester (Consultant and previously Assistant to the President) had in his possession a number of unused invoices with a total face value of \$4.6 million, which were already authorized and ready for processing. These would have provided Dr. Cazzaniga with additional sums to use at his discretion.

Considering the above, we offer the following recommendations:

1. To obtain effective control in Italy:
 - a) no payment should be made unless it is properly supported and accurately documented in the books of the Company.
 - b) no dummy documentation should be prepared, accepted or processed.
 - c) managers should be made aware that they will be held responsible for all charges against their departmental expense and Capital Budgets.
 - d) all existing bank accounts which are not recorded on the books of the Company should be closed.
2. Esso Italiana should formally evaluate and review with Esso Europe in advance the necessity and level of any special payments in the future.

If it is decided that such payments are necessary to operate effectively in Italy then we recommend that whatever payment procedures are adopted should endeavour to ensure that these costs are borne by the Italian Company.

We have included in the attachment the items which should be covered in the evaluation of the need for special payments, and indicated our willingness to assist in the development of controls appropriate to the authorization, making, recording and verification of such payments.

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This audit review was carried out during April/June 1972 by Messrs. T.P.O'Brien
N. Sieurin, N.A. Halton and Dr. U. Croxatto. If you have any queries on
our report, we are, of course, at your disposal.

Very truly yours,

G.N. Martin
G.N. MARTIN

cc: Messrs. H.C. Kauffmann - EEI
H.T. Cruikshank - EEI
R.G. Miller - EEI
D.J. Thompson - EEI
M.J. Quilter - ESI
E. Consigliere - ESI
H.D. Schersten - SONJ

Encls.

TPO'B/mmr

DETAILED AUDIT MEMORANDUMInternal Audit Report PE 72/10 - Special BudgetI N D E X

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I. HISTORY OF SPECIAL BUDGET

The various procedures which have been utilized from 1948 to date to generate funds for special payments are highlighted in Dr. Cazzaniga's letter of May 24, 1972 to Mr. O'Brien of our staff (Attachment I).

II. CONTROL OVER SPECIAL BUDGET

We have been told by Dr. Cazzaniga that Jersey management first became aware of special payments in the early 50's when Messrs. Stott and Lamont (SONJ Directors) were informed of the procedure for generating funds whereby RASION (then owned by Moratti) would overcharge Interesso for processing and pass the excess amount to ESI.

However, the first attempt to establish a definite procedure took place in 1961 when the Jersey audit staff became concerned with the increasing amount of payments being made by ESI supported only by an employee's withdrawal receipt. The General Auditor and Controllers Department of SONJ approached ESI with a view to the formalization of procedures applicable to such payments. A meeting on December 3, 1964 between Dr. V. Cazzaniga, ESI President, Dr. E. Consigliere, then ESI Deputy Controller, Mr. A.B. Hecker, SONJ General Auditor and Mr. H.W. Henley, Regional Auditor, laid ground rules for payments of this nature to third parties.

Mr. L. McIntosh, Jersey Auditor, visited Dr. Cazzaniga on December 14 and advised that he was satisfied that a procedure had been set up, and specifically that all payments were 'intended to support the various groups that are in a position to promote the interests of the Company'.

Those familiar with these payments at that time included Mr. M.W. Johnson, and Mr. W.R. Stott, who then had contact responsibilities for the Company's operations in Italy.

However, Mr. McIntosh subsequently wrote the General Auditor of SONJ on April 14, 1966 and emphasized that his December 1965 review with Dr. Cazzaniga was not an audit since "there is no way of knowing beyond doubt that the income shown in the Comptroller's records, is all the otherwise unrecorded income that was received, or that the bank account discussed is the only such account," "there is no certainty that the documents themselves are bona fide", etc., etc., (see Attachment II).

These comments were sent by SONJ Deputy Comptroller to Mr. M.W. Johnson, with a covering note, dated May 10, 1966, offering to have the Esso Europe General Auditor review future payments and report confidentially to Esso Europe in this regard. (See Attachment III).

The audit offer appears to have been taken up as the Esso Europe General Auditor made a review each year thereafter. This review, however, was limited to reporting the mechanics of the procedure, and determining that 'the expenditure (total only) had received the required approval' (see report for year 1968 - Attachment IV).

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In 1968 Esso Europe established a form of Budget Control for payments under this procedure. Dr. Cazzaniga was required to agree each year in advance with his Contact Executive in Esso Europe the payments necessary in the Company's general interest by broad categories. Additional payments were generally agreed during each year and a final report of payments made (or purported to have been made) by broad category was prepared at year-end. See Schedule I attached.

No substantiation was required either of the specific amount or purpose of individual payments nor of the true recipients.

It has been virtually impossible to reconcile the payments reported by Dr. Cazzaniga with those actually made since they bear so little relationship to each other. For example:-

Special Fuel Oil Supply to Power Plants

		<u>1969</u>	<u>1970</u>	<u>1971</u>
Reported to Esso Europe	M\$	1500	90	150
Actually paid, so far as we can establish		48	664	866
<u>Deferred Excise Taxes</u>		<u>1968</u>	<u>1969</u>	<u>1970</u>
Reported to Esso Europe	M\$	1114	500	900
Actually paid, so far as we can establish		40	160	160
<u>Suez Extra Charges</u>		<u>1968</u>	<u>1969</u>	<u>1970</u>
Reported	M\$	813	900	-
Actually paid, so far as we can establish		856	-	-

Recognizing the difficulties in identifying even the broad areas against which payments were made, it is evident that Dr. Cazzaniga's reporting was largely at variance with what actually took place.

Esso Europe decided in August 1971 that there would not be a special budget for 1972; however, M\$ 658 had been spent for Special Budget purposes during the first quarter of 1972 without the knowledge of Esso Europe.

The situation which arose, i.e. misuse of the Special Budget, etc., was entirely contrary to the expectations of those who set up the procedure back in 1963-1965, and with hindsight can be seen as at least partly attributable to the confidence which top management, both in London and New York had in Dr. Cazzaniga. Yet the very purpose in setting up the formalized procedures was to provide improved control: at that time the potential danger of entrusting funds to a single individual in this manner was fully appreciated. However, in practice Jersey and Esso Europe failed to maintain their appreciation that these control dangers applied equally to Dr. Cazzaniga, and he was able to offer assurances that were regarded by them as sufficient (see Attachment V).

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Other than the controls intended to be exercised by Jersey and Esso Europe management, certain additional controls existed or should have existed which, had they been effectively exercised, would at least have curtailed the use of the special budget:

- a) For payments of over Lit. 2 million the procedure called for the signature of a second Director. As the details of the Special Budget payments were effectively personal to Dr. Cazzaniga, and as the recipients were virtually never shown on the authority, the second Director was usually signing without controlling the payment. Thus by his failure to sufficiently question Dr. Cazzaniga, the major in line control was negated.
- b) Those in Esso Italy who did know or should reasonably have known that the special budget was being used for purposes other than as approved by Esso Europe were in a position of conflicting loyalty to the Company and to the President.
- c) Controller's Department appear to have acted entirely on instructions from Dr. Cazzaniga and fulfilled the role merely of processing invoices and requests for payment (see Attachment VI and for an example copy of each). We have found no record of any steps taken by them to establish the true recipients of funds made available; indeed the very structure of the agreement between Esso Europe and ESI was such as to place the Controller in the 'non-control' position of knowing no more detail of Esso Europe's approval than the total of the funds to be made available each year.

SUMMARY ON CONTROL OVER SPECIAL BUDGET

Despite the intentions of improving controls over unsupported payments, the establishment of the procedure for the special budget merely continued in a formal manner the total control in the hands of one man, who was in the event able to exert his influence over those purportedly exercising control over his activities.

This resulted in virtually no control at all over some Lit. 17 billion - \$ 29 million - in nine years. The manner of Dr. Cazzaniga's operation is explained in the Section entitled 'Disbursements from 'Special Budget'. Additional uncontrolled payments of the same nature and amounting to at least \$ 30 million are detailed in Section V of this report.

III. SOURCE OF FUNDS FOR SPECIAL BUDGET

The sources from ESI regular accounts (and to a lesser extent RASION and SARPOM) which were used to generate funds for the Special Budget are shown and explained in Schedule II.

The justification given for accepting the unusual operations such as the processing of dummy invoices and the bypassing of Company records in accounting for certain revenues (interest rebates, travel rebates) was that they were necessary to obtain tax relief as business expenses as well as to avoid providing the tax authorities with the names of recipients, or paying declared taxon recipients in lieu of disclosure.

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The Esso Europe General Auditor in his June 5, 1969 report, expressed concern over the use of two sources of dummy invoices which "may increase the risk of the venture being exposed in an unfavourable light" (Attachment IV).

Current experience in Italy confirms that any practice of processing fictitious documentation or by-passing official Company records in accounting for revenues or costs is unacceptable particularly to a Company of SONJ's standing, and can only lead in the long run to problems with governmental authorities, statutory auditors, bankers, etc., and engenders a climate of non-control at all levels in the Company.

IV. DISBURSEMENT FROM THE SPECIAL BUDGET

Schedule III shows the total sum expended through the special budget since January 1963 through March 1972, to be over \$29 million.

Payments were effected in two ways:

- a) those made against dummy invoices
- b) those made against requests for payment.
- a) Special Budget payments against dummy invoices

These payments are almost always against invoices of newspapers and other periodicals for journalistic services that had never been rendered. The total payments of this nature since January 1963 amount to Lit. 12.060.737.287 (\$ 20,616,639). (See Schedule IV).

Dr. Cazzaniga explained that this was a usual means of making political contributions in Italy: Schedule IV also shows the political affiliation of each recipient so far as we have been able to establish.

However, we have considerable doubts that all such payments were actually received by the persons stated or were for the ultimate use indicated. From the procedure adopted it is virtually impossible to verify the payee or purpose.

However, we have been able to establish that payments against invoices of a limited number of recipients were used to fund bank accounts from which Dr. Cazzaniga then made payments to various other persons/organizations. The major newspapers IL TENPO, MOMENTO SERA, which are independent but affiliated to the Christian Democrats and Social Democrats fall within this group, which is marked by (**) on Schedule IV.

PUBBLIPROP is connected with the Christian Democrats, and AVANTI with the Socialist PSI. They also fall within this group of recipients used to fund bank accounts from which Dr. Cazzaniga purports to have made payments to various persons/organizations.

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The above procedure indicates a method used to generate cash when required. We hold a file of such invoices totalling some Lit. 2.7 billion (\$4.6 million) many of which are dated, stamped and receipted but not yet processed. No doubt they would have been used as the need arose.

b) Special Budget Payments against cash payment requests without supporting documentation (known as A-Z accounts)

Schedule V gives details of the payments by this method totalling \$ 8.5 million from 1963 through March 1972.

Payment was made by ESI Comptrollers out of the Special Budget bank account (not recorded in the books of ESI) against a request invariably authorized by Dr. Cazzaniga, (and by a second director when the amount was over 2 million lira).

From 1964 onwards almost all payments were made to Dr. Cazzaniga's Assistants (Messrs. Jester, Digati, Queirolo) for them to distribute as instructed (** Schedule V).

The total amounts handled by them under this procedure since 1964 was lira 4.4 billion (\$ 7.5 million) with Jester responsible for lira 4.1 billion or \$ 7.0 million.

Certain records were kept by them showing how funds were spent; these records show a wide range of recipients and purposes, principally to individual politicians and ministries. Whilst some of the payments were clearly considered for advantages available to ESI (Defiscalisation, Deferred Payments, etc.), we are not in a position to establish whether the other payments made were for the purpose stated, were received by the persons indicated, or achieved the objectives purported.

In various interviews with Dr. Cazzaniga and Mr. Jester, we were unable to obtain information on these payments sufficient to enable us to have the level of payments reviewed by those who are knowledgeable of 'prices' to be paid for specific favours, or to ascertain that the favours paid for had actually been received.

V. SIMILAR PAYMENTS OUTSIDE THE SPECIAL BUDGET WHICH SHOULD HAVE BEEN ALLOCATED AGAINST IT.

A large number of other special payments were made without reference to the Special Budget. It is also worth noting that they were not picked up by any functional departments in Esso Europe nor by any previous audits in Italy. The ease with which these additional payments were effected and processed by ESI raises serious questions as to the validity of the controls within that Company.

It is impossible to quantify or even to estimate, without an inordinate amount of work, the total amount which was used for 'special' purposes; however, findings to date would indicate that in addition to the \$ 29 million disbursed through the Special Budget, at least \$ 30 million was expended in a similar manner over the last ten years. Examples of the various procedures used to effect these other payments are outlined below.

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- a) Payments from unrecorded bank accounts unknown to the Financial Officers of the Company.

Full details of these are given in a separate report PE 72/7. However, it should be noted that these accounts included substantial payments of a nature similar to those made under the Special Budget. Total payments over the period 1963-1972 from these additional accounts exceed \$ 8 million.

- b) Payments supported by dummy invoices, similar to those within the Special Budget but which were charged against other expense Budgets

Schedule VII shows the extent of this further source apparently used for payments to political newspapers, etc., for services that were in fact never rendered. The total since January 1964 is \$ 6.5 million, with that for 1971 alone over \$ 1 million. Schedule VI a shows how they were accounted for. Schedule VI b explains the legend. The P.R. Budgets of both RASION and ESI were widely used, and the balance mainly charged to expenses. The dummy invoices used to support these payments were from the same organizations (PUBBLIPROP, etc.), which provided documentation to justify Special Budget Expenditures.

- c) 'Dummy Invoices'

We have also found a number of other invoices issued by third parties against ESI by arrangement with ESI management for services that were never rendered. These were then charged against either operating budgets or capital projects. Examples include:

- i) Sacco (Engineering Company) invoices rendered to ESI for 'Viability Studies' (see Attachment VII for an example) which were used to generate funds to make 'una tantum' (one time) payments on autostrada outlots. These payments totalling over \$ 2 million were included in various Capital Budget projects rather than the Special Budget.
- ii) SARAS and Hydro Italiana (Holding Company) invoices generated credits into the unrecorded bank accounts amounting to Lit. 194 million (\$ 332,000) and Lit. 2 billion (\$ 3.4 million) and were charged as operating expense and commissions respectively.

- d) Compensi Riservati a Terzi (or confidential payments to third parties).

We comment on these payments in a separate report (PE 72/9) which describes the procedura followed for obtaining funds for service station permits, etc. When discussed in 1965 between SONJ and ESI these payments were envisaged as amounting to 'a total of \$30,000 in one year'. In the event some \$ 1.5 million has been expended through this procedure since January 1965. This procedure was of the nature of a "mini" Special Budget but was not included in the Special Budget reports to Easo Europa.

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d) Consultants

We have established that Dr. Cazzaniga approved annually a so-called 'Lista Consulenti', containing between 30 and 40 individuals who were contracted by Dr. Cazzaniga and paid on a retainer basis. We have been referred by Dr. Cazzaniga to the department managers for further information. First results of our investigation, which is continuing, indicate that some of these consultants were paid for 'services that were similar to those for which the Special Budget was designated'.

f) Rebates on Inflated Prices Paid for Crude and Product Purchases

We have found examples where crude and product purchases prices to ESI have been inflated with the difference being passed to Dr. Cazzaniga for whatever purposes he deemed necessary (see our report on 'Crude and Product Purchases').

VI. RECOMMENDATIONS

In addition to the four recommendations to gain effective control in Italy as set out in the summary to this memorandum, we recommend that Esso Italy formally re-evaluate necessity for making special payments in Italy. This evaluation should be reviewed with Esso Europe and should include the following:

- (i) The economics of the procedure i.e. the costs versus the expected gains including any tax effect arising from ii & iii below.
- (ii) The necessity to shield the identity of the recipient and the purpose of the payment.
- (iii) The necessity to shield the identity of the payor.
- (iv) The practical difficulties of ensuring the secrecy of the payor and the payee but at the same time setting up a control procedure to obtain reasonable assurance that payment of the amount authorized has been made to the person intended and that benefits have accrued from the payments made.

We understand that Special Payments are invariably required in cash in local currency, receipts are never given and are usually made through third parties, i.e., a situation which is virtually impossible to control in the normal concept of business transactions.

However, should it be necessary to continue to make such payments in future, we will assist in developing procedures (possibly a separate procedure for minor payments up to say \$ 1,000 each) which will afford the best control possible in the circumstances.

Such procedures would cover funding the source of payments, authorities for making payments, their recording, and verification of receipt and eventual reporting and audit.

SPECIAL BUDGET REPORTSCHEDULES

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SCHEDULE	III	Special Budget 1963-1972: total expenditures by year.
SCHEDULE	IV	Special Budget 1963-1972: expenditures backed by invoices, itemized by recipient and by year.
SCHEDULE	V	Special Budget 1963-1972: expenditures from A-Z Account, itemized by recipient and by year.
SCHEDULE	VI	Sources of payments similar to but outside the Special Budget, itemized by year 1964-1972.
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Comparison of Approved Budget Allocated to Road Projects and Expenditures Reported by Dr. Cassaniga
(figures in US\$ at shown exchange rates)

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NOTES TO SCHEDULE II

- 1) ESI P/L Lit. 12.164.885.690 (\$ 20,794,675)

This item includes the invoices of organizations (newspaper companies, agencies, etc.) or cash payment requests charged to account 40 - Administrative and General Expense - during the period 1963/1967 and to account 30 - Marketing Expense - from 1968. These expenses, for the balance sheet of Italian tax purposes, were reclassified as Advertising Expenses while for Jersey reporting, they were reclassified as Administrative and General Expenses.

- 2) RASION P/L Lit. 73.005.000 (\$ 124,794)

It includes invoices of organizations or cash payment requests charged to account 40 - Administrative and General Expense.

- 3) SARPOM P/L Lit. 288.476.000 (\$ 493,121)

It includes invoices of organizations charged to account 40 - Administrative and General Expense. The amount of Lit. 268.476.000 charged to P/L in 1971 has been entirely absorbed by ESI for processing expenses paid to SARPOM. The other users of the refinery absorbed expenses not covered by the special budget in the amount of Lit. 157.221.265 for CHEVRON OIL ITALIANA S.p.A. and Lit. 121.054.515 for TEXACO S.p.A.

- 4) INTEREST REBATE Lit. 1.809.070.992 (\$ 3,092,429)

This item includes the adjustment on bank interest rates and on commissions for payments in foreign currencies (standard rates vs. agreed rates) received from the banks through bank draft. These drafts were deposited into the special bank account in order to have funds available for payments for third parties.

- 5) TRAVEL REBATE Lit. 24.255.487 (\$ 41,462)

Rebates received from Travel Agencies on travelling tickets purchased by ESI and LA COLUMBIA. The relevant bank drafts were deposited into the special bank account.

- 6) LUBOIL COMMISSION Lit. 326.098.840 (\$ 557,434)

Price adjustment on luboil purchased by ESI from Bitumoil and Vincor. The relevant bank drafts were deposited into the special bank account.

- 7) TRANSPORTATION ADJUSTMENT

Lit. 812.895.030 (\$ 1,389,564)

It refers to the money obtained from ESI's regular bank accounts by charging account 21 - Purchases and/or account 30 - Marketing Expenses as Transportation Adjustment. The relevant bank drafts were deposited into the special bank account.

Schedule II (Contd.)8) SALES REBATE

Lit. 100.312.025 (\$ 171,474)

It refers to the money obtained from ESI's regular bank account by charging account 10 - Sales - as sale rebates. The relevant bank drafts were deposited into the special bank account.

9) SARAS DEBIT NOTES

Lit. 962.574.936 (\$ 1,645,427)

This item refers to accommodation debit notes issued by SARAS To ESI as expenses for the desulphurization of distillates for the export market, which have been charged to account 25 - Operating Expenses. The relevant bank drafts were deposited into the special bank account.

10) CONSULTING SERVICES

Lit. 343.463.500 (\$ 587,117)

This item refers to the funds made available through the payment of accommodation invoices issued to ESI by Experta Treuhand A.G. and Societa de Guaranas Comerciales for marketing studies. These invoices were paid by ESI to these companies in Switzerland through the normal bank account. The relevant amounts were returned to Jester and deposited into the special bank account.

11) ADJUSTMENT ON SVIT

Lit. 18.142.000 (\$ 31,012)

Amount paid to ESI through a bank draft by the previous SVIT shareholder. It represents the additional registration fee that SVIT was compelled to pay as a result of higher assessment on the value of the land on the island of Tronchetto purchased by SVIT at the very beginning. The relevant expense was not reflected in the calculations of SVIT's price of shares when ESI became the owner.

12) McCANN REBATE

Lit. 8.454.034 (\$ 14,451)

Payment to ESI through bank draft by McCann-Erickson Italiana S.p.A. relevant to the part of the commission they obtained on the advertising developed on behalf of our Company in excess of the commission granted to them by contract.

13) REIMBURSEMENT FROM UNIONE PETROLIFERA

Lit. 21.036.667 (\$ 35,960)

It refers to the reimbursement obtained in 1963 of a payment (Lit. 25.000.000) under the Contribution and Membership Budget made in 1962 as a result of Confindustria's intention to conduct an informative campaign in defense of private enterprise through newspapers. Due to the fact that this campaign was not entirely developed, Lit. 23.426.133 was reimbursed of which Lit. 2.389.466 was credited to SARFOM (being charged in 1962 for its share) and the balance of Lit. 21.036.667 (being the share of ESI) was paid into the special bank account.

Schedule II(Contd.)14) SAVINGS BOOK DEPOSITED INTO BANK ACCOUNT

Lit. 390.710 (\$ 668)

It refers to a savings book payable to the bearer n. 9178/13 released by Credito Italiano - Agency 21 - Milan, in the name of Margherita Esse, the balance of which was paid into the special bank account.

15) INTEREST CREDIT/(CHARGE) Lit. 92.529.459 (\$ 158,170)

This item includes the interest credited or charged by the bank on the special bank account movement, the net total resulting in interest charges of about Lit. 92 million.

16) MISCELLANEOUS Lit. 159.186.482 (\$ 272,114)

This item includes: revenue in connection with tankage rental (Lit. 53.455.761), money given back by Jester (Lit. 11.824.405), bank draft received from Sig. Bolla for Estigas (Lit. 2.241.309), bank draft for holiday payment not cashed by Sig. Cantini, revenue from sale of gasoline from the service station in the building to EUR-SIVA (Lit. 107.890), difference between a cash payment and purchase of bonds (Lit. 487.100), difference between the total money available from the payment through ESI regular bank account of the SARAS debit note n. 330 of September 29, 1969 and the money utilized to cover Pubbliprop and IL TEMPO invoices (Lit. 90.898.017).

17) SUB-TOTAL Lit. 17.019.717.934 (\$ 29,093,522)

This line shows, by year, the total effect of the special budget on ESI P/L.

In 1970 a total amount of Lit. 250.000.000 made available from invoices paid under the special budget were utilized, as told to Controller's by Dr. Cassaniga, for payments connected to service stations on autostradas.

In view of the fact that the payments for service stations on autostradas were not included under the special budget, a 'dummy' invoice issued by Umberto Sacco & C. (Attachment VII) was utilized, by charging service station investments, to have available the above Lit. 250.000.000 to be repaid to the special budget. Therefore, the Lit. 250.000.000 was statistically credited to the total special budget invoices and the amount deposited into the INI special bank account.

These two transactions (credit to special budget invoices and debit for the deposit into the special bank account) are offsetting each other and are therefore not shown on the source of special budget.

SPECIAL BUDGET 1963-1972 - TOTAL EXPENDITURES

(per \$25 line to \$1)

	<u>TOTAL</u> <u>1963-1972</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
1. 12,000,737.267	390,473.223	459,820.938	389,709.224	560,722.150	1,537,160.100	1,990,311.350	2,729,218.750	1,721,368.850	1,563,420.000	418.7	
" 20,616,639	667,475	786,018	666,169	1,471,319	2,627,624	3,402,241	4,665,331	2,942,510	2,672,512	"	
2. 4,955,950.647	54,000.000	169,500.000	180,562.000	601,762.300	714,701.068	1,397,200.844	610,900.000	308,714.395	595,500.000	326.7	
" 5,476,583	92,307	229,743	306,652	1,028,653	1,221,711	2,368,445	1,043,589	527,716	1,017,948	"	
3. 17,010,717.934	444,473.223	629,320.938	570,271.324	1,462,454.450	2,251,861.188	3,387,552.244	3,339,715.750	2,030,073.245	2,158,900.000	745.0	
" 20,003,522	750,782	1,075,751	974,521	2,499,972	3,448,335	5,790,686	5,705,920	3,470,226	3,640,460	1.7	

SCHEDULE IVa

for details please
Schedule IVbSUMMARY OF RECIPIENTS*

Partito Democrazia Cristiana (DC)	6.989.606.952	11,948,046
Partito Socialista Democratico Italiana (PSDI)	3.018.748.000	5,160,952
Partito Socialista Italiano (PSI)	728.341.500	1,245,028
Partito Liberale (PLI)	346.045.750	591,531
Partito Socialista Italiano d'Unità Proletaria (PSIUP)	41.600.000	71,111
Movimento Sociale Italiano (MSI)	138.122.400	236,106
Partito Repubblicana Italiano (PRI)	156.500.000	267,521
Others/Unknown	641.772.585	1,096,344
	<u>12.060.737.287</u>	<u>20,616,639</u>

* According to political affiliation so far as we are aware of them.

SPECIAL BUDGET PAYMENTS

1963-1972

(those supported by invoices)

<u>RECIPIENT</u>	<u>NOMINAL PURPOSE OF PAYMENT OR POLITICAL AFFILIATION SO FAR AS WE ARE AWARE OF THEM</u>	<u>LIRE</u>	<u>\$</u>
Scra **	Partito Democrazia Cristiana (DC)	2.113.100.572	3,612,137
Scra **	Partito Socialista Democratico Italiana (PSDI)	2.789.338.000	4,768,099
la Soc. Editrice	Magazine "Specchio"	38.480.000	65,777
Editoriale Latina	Magazine "Specchio"	18.720.000	32,000
Scra **	Partito Socialista Italiano (PSI)	31.200.000	53,333
Scra **	DC	4.674.034.480	7,989,802
Attività I. Diffusione	Movimento Sociale Italiano (MSI)	63.180.000	108,000
agenzia infor.	PSDI	135.010.000	230,786
	PSI	166.400.000	284,444
	DC	28.200.000	48,205
	Auto Magazine	135.200.000	231,111
Avve Cittadino	DC	22.979.900	39,281
Repubblicana	Partito Repubblicana Italiano (PRI)	47.840.000	81,777
ice Rinnovamento	Partito Comunista Italiano (PCI)	52.000.000	88,888
Scra	Carli/Colombo	31.200.000	53,333
Technica Palermitana	PRI	108.160.000	184,888
	MSI	34.330.400	58,684

<u>RECIPIENT</u>	<u>NOMINAL PURPOSE OF PAYMENT OR POLITICAL AFFILIATION SO FAR AS WE ARE AWARE OF THEM</u>	<u>LIRE</u>	<u>\$</u>
Ive	PSIUP	20,800.000	35,553
Democratico	PSDI	88,400.000	151,111
	PSI	10,400.000	17,777
	"Technical Magazine"	50,000.000	85,476
Motta **	PSI	15,600.000	26,666
Lombardo	PSDI	5,000.000	8,547
Stampa Vides	*	5,000.000	8,547
I Soc.	PSI	10,400.000	17,777
Italiano Umare	*	2,004.000	3,423
Italiano	A.C. Roma	25,000.000	42,733
	Bank interest	32,149.274	54,553
	Reporter	1,500.000	2,561
	Assistant to Dr. Cazzaniga	104,500.000	178,631
Lombardo	Bank interest	169,514.804	289,751
Bia	*	6,507.900	11,121
	*	3,099.000	5,227
Tipografica I	*	20,660.000	35,311
nte	PSI	26,341.500	45,021
to	PSDI	1,000.000	1,701
	Chairman of Economic Council	10,330.000	17,651
	*	10,230.000	17,651

RECIPIENT	NOMINAL PURPOSE OF PAYMENT OR POLITICAL AFFILIATION SO FAR AS WE ARE AWARE OF THEM	LIRE	\$
	DC	1,040,000	1,777
Initiative	Partito Liberale (PLI)	96,012,750	164,124
Commissione Generale			
Italia	PLI	249,000,000	425,641
Italia	MSI	28,080,000	48,000
Donus	"Technical Magazine"	62,024,572	106,024
Editoriale	PSI	21,840,000	37,333
Città	Estigis Città	31,200,000	53,333
	MSI	12,532,000	21,422
Paralelo **	PSI	119,600,000	204,444
Moderno	DC	36,400,000	62,222
Comitale S. Marco	DC	52,000,000	88,888
Lavoro	PSI	36,400,000	62,222
	PSI	291,200,000	497,777
	DC	41,600,000	71,111
	DC	15,000,000	25,641
Socialista	PSI	20,800,000	35,555
Lineo	DC	5,252,000	8,977
	Unione Italiana Libertatori (UIL) (union of PSDI and PRI)	10,000,000	17,094
	Partito Socialista Italiano d'Unità Proletaria (PSIUP)	20,800,000	35,555
Editrice	*	7,500,000	12,820
Internaz. Prodeo	University of Prodeo	8,320,000	14,222

<u>RECIPIENT</u>	<u>NOMINAL PURPOSE OF PAYMENT OR POLITICAL AFFILIATION SO FAR AS WE ARE AWARE OF THEM</u>	<u>LIRE</u>	<u>\$</u>
	PLI	1.033.000	1,766
	PRI	500.000	854
	*	5.165.000	8,829
Indust	Confindustria	10.000.000	17,094
Attualità	Independent	19.528.135	33,381
ent - See note. on Schedule II		<u>(250.000.000)</u>	<u>(427,332)</u>
		<u>12.060.737.287</u>	<u>20,616,639</u>

We do not know these at the date of preparation of this Schedule.

See text on "Special Budget Payments Backed by Invoices".

SUMMARY OF RECIPIENTS

A-Z Account

		<u>Lit.</u>	<u>£</u>
Casati	Chairman, Milan Province (CD)	5.000.000	8,547
Murzi	Andreotti (CD)	3.000.000	5,128
Dietrasanto	FSI	10.000.000	17,024
Donbano	Tax Consultant	1.500.000	2,564
Donadelli	*	20.000.000	34,188
Stracene	*	1.000.000	1,709
Dottrinelli	*	1.000.000	1,709
Donelli	*	1.500.000	2,564
Donaniga	Unknown purpose	40.500.000	69,230
Donster**	Assistant to President	4.094.902.647	6,999,833
Donatti	Unknown purpose	5.500.000	9,401
Doni	Admin. Manager Rasion	7.500.000	12,820
Donco	Tax Manager	375.000.000	641,025
Doniolo**	Sec. Management Committee	32.600.000	55,726
Donelli	Sec. to Rasion Board	478.000	817
Donesti	Assist. to Const. and Oper. Manager	3.000.000	5,128
Donati**	Assist. to President	295.500.000	505,127
Donangelisti	Fiscal Consultant	50.000.000	85,470
Unknown	Unknown purpose	11.000.000	18,803
	TOTAL	<u>4.958.980.647</u>	<u>8,476,883</u>

SPECIAL BUDGET PAYMENTS1963 - 1972A-Z ACCOUNT

<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
5,000,000									
3,000,000									
10,000,000									
1,500,000									
20,000,000									
1,000,000									
1,000,000									
1,500,000									
	40,500,000								
	116,000,000	170,000,000	574,462,300	711,485,088	1,397,240,864	610,500,000	130,214,395	85,000,000	300,000,000
	5,500,000								
	7,500,000								
		5,000,000						370,000,000	
		5,300,000	27,300,000						
		262,000							
				216,000					
				3,000,000					
							128,500,000	140,500,000	26,500,000
							50,000,000		
11,000,000									
<u>54,000,000</u>	<u>169,500,000</u>	<u>180,562,000</u>	<u>601,762,300</u>	<u>714,701,088</u>	<u>1,397,240,864</u>	<u>610,500,000</u>	<u>308,714,395</u>	<u>595,500,000</u>	<u>326,500,000</u>

SOURCES OF PAYMENTS SIMILAR TO BUT OUTSIDE THE SPECIAL BUDGET

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>TOTAL</u>
102.176.000	116.120.050	49.920.000	48.308.000	53.554.540	35.598.540					405.557.130
EXPENSES		124.800.000	86.600.000	10.000.000			72.963.800	163.847.000	137.779.000	595.989.800
EXPENSES						335.298.017				335.298.017
ITS			20.633.528							20.633.528
NET	92.733.000	96.960.150	295.360.000	295.994.220	199.650.000	327.058.010	20.800.000	143.560.000	34.780.000	1.904.925.360
EXPENSE					26.000.000			105.000.000		131.000.000
GENERAL			4.000.000							4.000.000
EXPENSE			26.000.000		137.000.000	100.000.000				263.000.000
TOTAL	194.909.000	337.880.200	482.513.528	352.302.220	416.244.540	797.954.567	93.763.800	412.407.000	172.559.000	3.260.513.855
TO TRAVEL S.O.A.							52.000.000	121.054.515	46.379.999	221.434.514
CONTRIBUTION OIL							72.010.000	157.221.265	115.642.964	344.874.229
TOTAL	194.909.000	337.880.200	482.513.528	352.302.220	416.244.540	797.954.567	217.773.800	690.682.780	336.587.963	3.826.848.597

SOURCES OF PAYMENTS SIMILAR TO BUT OUTSIDE THE SPECIAL BUDGET**1) ESI - PR BUDGET L. 405.687.130 (\$693,482)**

This item includes the invoices of organizations (newspaper companies, agencies, etc.) charged to the current year P/L under the Public Relation Budget during the period 1964/1969.

2) ESI - GENERAL EXPENSES L. 595.989.800 (\$1,018,786)

This item includes invoices of organizations as mentioned in Item 1) which were charged to General Expenses. The payment made in 1965 of Publilprop invoices for a total amount of L. 124.800.000 (\$213,333) was planned initially to be charged to the companies operating TAL. In fact, the payment was absorbed by ESI P/L.

The payment made in 1966 totalling L. 86.600.000 (\$148,034) mainly refers to special donations made to various organizations in connection with the move of ESI's Head Office from Genoa to Rome.

The payments made during the period 1970/1972, totalling L. 374.589.800 (\$640,324), have been made under a locally approved budget for books and periodicals expenses of the Public Relation Department.

3) ESI - A/C 21 PURCHASES L. 335.298.017 (\$573,159)

It refers to the payment of SARAS debit note n. 330 of September 19, 1969 charged to account 21 Purchases. The money available was utilized to pay the Publilprop and Il Tempo invoices for a total amount of L. 244.400.000 (\$477,777) while the remaining balance of L. 90,898,017 (\$155,381) was deposited into the I.B.I. Special Bank Account.

4) ESI - INVESTMENTS L. 20.633.528 (\$35,271)

This item refers to a charge to account 308 "Incomplete Constructions" as expense for technical surveys incurred during the construction of the pipeline from the Tracento refinery to the Chivasso plant. A bank draft for the amount of L. 19,850.700 (L. 782,828 referring to the turnover tax paid) was handed to Mr. G. Jester.

5) RASION - PR BUDGET L. 1.504.925.380 (\$2,572,522)

This item includes invoices of organizations charged to Rasion P/L under Public Relation Budgets approved by local management.

6) RASION - GENERAL EXPENSES L. 131.000.000 (\$223,932)

It includes invoices of organizations of which L. 4.000.000 (\$6,838) was handed to Dr. L. Scocco for confidential payment in connection with the Tax Authorities' review of 1966 and 1967 of Rasion's balance sheet; and L. 10.000.000 was handed to Mr. G. Jester.

7) LA COLIMBIA - GENERAL EXPENSES L. 4.000.000 (\$6,838)

It refers to a bank draft handed to Mr. G. Jester.

8) SARPOM - GENERAL EXPENSES L. 263.000.000 (\$449,572)

It includes an invoice of Momento Sora paid in 1966 and contributions amounting to L. 237.000.000 (\$405,128) paid in 1968/1969 to Confederazione Generale dell'Industria.

9) SUB-TOTAL L. 3.260.533.855 (\$5,573,562)

This is the total amount charged to ESI - Cons. P/L during the period 1964/1972.

10) SARPOM - A/C TEXACO S.p.A. L. 221.434.514 (\$378,521)

11) SARPOM - A/C CHEVRON OIL ITALIANA S.p.A. L. 344.880.229 (\$589,539)

Items 10 and 11 include the invoices of Pubbliprop, Mondo Operato, Avanti, and Momento Sora which were absorbed by Texaco S.p.A. and Chevron Oil Italiana S.p.A. through the payment to SARPOM of crude processing expenses during the period 1970/1972.

12) TOTAL L. 3.826.488.598 (\$6,541,622)

This represents the total amount of payments made during the period 1963/1972.

PAYMENTS SIMILAR TO BUT OUTSIDE THE SPECIAL BUDGET

	<u>T O T A L</u>	
	<u>LIRE</u>	<u>\$</u>
BEGISA	35.308.000	60,356
DOMUS	204.025.000	348,761
AVANTI	116.064.000	198,400
PUBBLIPROP	816.518.963	1,395,759
SETI	22.726.000	38,848
MONDO OPERAIO	233.971.780	399,952
LA CONQUISTA	15.600.000	26,667
LIBERA INIZIATIVA	50.000.250	85,470
OPEN	153.808.000	262,920
AUTOMOBILE CLUB	52.600.000	89,914
SOCIALISMO DEMOCRATICO	20.800.000	35,556
CENTRO STUDI DEL LAVORO	5.000.000	8,547
CENTRO ITALIANO STUDI MARITTIMI	2.000.000	3,419
NUOVO CITTADINO	40.010.000	68,393
AUXILIUM	10.000.000	17,094
ENTI LOCALI VARI	10.000.000	17,094
SCUOLE DIVERSE	10.000.000	17,094
MOMENTO SERA	540.010.000	923,094
CONFEDERAZIONE GENERALE INDUSTRIA	237.000.000	405,128
MONDO NUOVO	26.000.000	44,444
L'EUROPA	23.844.000	40,759
ADESSO	24.203.200	41,373
IL TEMPO	412.417.960	704,988
ECONOMIA E LAVORO	31.200.000	53,333
	755.000.000	120,000

SCHEDULE IVa
for details please
Schedule IVb

SUMMARY OF RECIPIENTS *

	(Lire)	(£)
Partito Democrazia Cristiana (DC)	6.989.606.952	11,948,046
Partito Socialista Democratico Italiano (PSDI)	3.018.748.000	5,160,952
Partito Socialista Italiano (PSI)	728.341.500	1,245,028
Partito Liberale (PLI)	346.045.750	591,531
Partito Socialista Italiano d'Unità Proletaria (PSIUP)	41.600.000	71,111
Movimento Sociale Italiano (MSI)	138.122.400	236,106
Partito Repubblicano Italiano (PRI)	156.500.000	267,521
Others/Unknown	641.772.585	1,096,344
	<u>12.060.737.287</u>	<u>20,616,639</u>

812

* According to political affiliation so far as we are aware of them.

SUMMARY OF PAYMENTS BY PARTY*MS

	<u>Revised</u>	<u>Original</u>
Partito Democrazia Cristiana (DC)	14,387	11.9
Partito Socialista Democratico Italiana (PSDI)	6,029	5.2
Partito Socialista Italiano (PSI)	2,201	1.2
Partito Liberale (PLI)	1,081	.6
Partito Socialista Italiano d'Unita' Proletaria (PSIUP)	116	.1
Movimento Sociale Italiano (MSI)	348	.2
Partito Repubblicana Italiano (PRI)	274	.3
Partito Comunista Italiano (PCI)	89	
Union Italiana Liberatore (UIL)	17	

*According to political affiliation as we know them.
 (Information provided by Exxon)

PROBATIVE VALUE OF NUMBERS

Mr. KERESSEY. Mr. Chairman. In connection with these pages, I would like to point out that these numbers have no probative value, and I would like the chairman to consider the value of publishing numbers of these kind when they, as we have testified, have no probative value. They are just numbers that were given to us.

Senator CHURCH. Well, I think they do have probative value, especially when the record makes clear that half of the money or more was rebated and then channeled into various secret bank accounts and that the president of your subsidiary has represented to you that even the returned money was used for political purposes.

The record makes all of this clear, and I think that the amounts, therefore, as conditioned and as qualified by the record do have probative value.

Secondly, the generalizations which were known to the company, which were supposed to govern the expenditure of funds through the special account, certainly have probative value.

So I disagree. These two excerpts from the record should be made public at this time.

I have no more questions. I want to thank you and I want to stress that this committee has no basis on which to contest the company's statement that the Italian episode is not representative of the general practices of Exxon in connection with its business pursuits throughout the world.

Thank you for your cooperation.

Mr. MONROE. Thank you, Mr. Chairman.

[Whereupon, at 11:20 a.m., the subcommittee recessed subject to the call of the Chair.]

POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

Mobil Oil Corp.

THURSDAY, JULY 17, 1975

**UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS OF
THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.**

The subcommittee met, pursuant to notice, at 11:25 a.m., in room 4221, the Dirksen Senate Office Building, Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Clark, and Case.

Senator CHURCH. Mr. Checket, would you stand and raise your right hand.

Do you swear to tell the truth, the whole truth and nothing but the truth, so help you God.

Mr. CHECKET. I do.

TESTIMONY OF EVERETT S. CHECKET, EXECUTIVE VICE PRESIDENT, INTERNATIONAL DIVISION, MOBIL OIL CORP., ACCOMPANIED BY GEORGE A. BIRRELL, GENERAL COUNSEL OF MOBIL

Senator CHURCH. Mr. Checket, I understand that you have a prepared statement?

Mr. CHECKET. Yes, sir.

Senator Church. Would you please read it?

Mr. CHECKET. My name is Everett S. Checket. I am an executive vice president of the International Division of Mobil Oil Corp. in New York, and am accompanied by George A. Birrell, general counsel of Mobil. Before assuming my present position, 1 month ago, I was regional vice president in London with immediate responsibility for Mobil's business in Europe including Italy.

POLITICAL CONTRIBUTIONS IN ITALY

I understand this subcommittee is attempting to determine whether U.S. Government action is necessary or appropriate in relation to corporate political contributions overseas. You have asked a Mobil representative to appear before you today to discuss this subject as it pertains to Italy. I would hope my statement today will answer many of the questions in which the subcommittee and its staff have indicated an interest.

The Italian situation first came to my attention in early 1974, after the newspapers reported that an investigation had been initiated by the public authorities into certain matters related to oil company contributions to political parties. I had then just assumed the position of regional vice president for Mobil in London with responsibilities which included Italy. I immediately initiated an investigation of the situation in Italy, and the factual picture I will present is based primarily on that investigation. It does not reflect firsthand, personal involvement on my part during the course of these developments because I was elsewhere in the company when these events occurred. The two individuals who immediately preceded me as regional vice presidents in London during this period have since retired from the company to accept other positions, which is the reason I, rather than either of them, am here today.

MOBIL OIL ITALIANA

During the late 1960's, the management of Mobil Oil Italiana, our wholly owned subsidiary which does business in Italy, received suggestions from time to time from petroleum industry trade association personnel, that it would be in order for Mobil Oil Italiana to join the industry in extending financial support to the leading democratic political parties in Italy. As you know, in Italy it is lawful for corporations to extend financial support to political parties.

Prior to 1970, MOI management elected not to participate in the suggested contributions. In 1970, the general manager of Mobil Oil Italiana reached a decision that his company's best interests would be served by changing this policy and extending financial support to the major non-Communist Italian parties. He sought the approval of the Mobil regional vice president, located in London, who in turn reviewed the matter with international division management in New York. On the understanding that such contributions were lawful and not unusual in Italy, agreement in principle was given and contributions commenced thereafter in 1970. A new general manager of Mobil Oil Italiana was appointed in early 1972 and continued the practice established by his predecessor of making contributions to the political parties for another year. Accordingly, during 1970 and in each of the next 3 years, up through 1973, Mobil Oil Italiana made financial contributions to the major political parties of the center-left coalition government—namely, the Christian Democrat, the Social Democrat, and the Socialist parties. The amount of these contributions averaged \$534,000 per year over the 4-year period.

THE ROLE OF UNIONE PETROLIFERA

The general pattern was that the president of the trade association, the Unione Petrolifera, received advice from the political parties as to the level of support they deemed appropriate from the petroleum industry. He or his staff would then advise each company, including Mobil Oil Italiana, of the portion of this total which would be appropriate for that company.

All such contributions by Mobil were made from Mobil's normal business accounts, by company check or bank remittance. These contributions were not paid from any secret fund and did not involve any out-of-country financial transactions.

Senator CHURCH. May I ask at this point whether they were carried on Mobil's books as political contributions?

Mr. CHECKET. They were not.

Senator CHURCH. They were not?

How were they carried on Mobil's books?

FALSIFICATION OF RECORDS

Mr. CHECKET. They were carried in various ways depending upon the invoice or receipt as either advertising expenses or research, generally those categories.

Senator CHURCH. In other words, Mobil falsified the record?

Mr. CHECKET. The record—

Senator CHURCH. The records were false?

Mr. CHECKET. The records showed entries for those purposes which—

Senator CHURCH. That were false?

Mr. CHECKET. It could be construed as false.

Senator CHURCH. Can be construed as false?

Mr. CHECKET. That is right.

Senator CHURCH. I do not know how you can construe it any other way. It is a common pattern. Falsification of the record has been apparent to this subcommittee in the course of its investigation of big companies.

Mr. CHECKET. At the request of Mobil Oil Italiana, invoices or receipts were received to document the contributions. All the contributions were recorded on MOI's books of account. As a matter of fact, because of this Mobil requirement for documentation by written invoices, Mobil Oil Italiana incurred a 4-percent turnover tax with respect to most of the contributions. This tax expired at 1972 year-end. The amount of that tax was duly paid by Mobil Oil Italiana. The figure I mentioned earlier does not include this additional tax paid by Mobil.

MOI had no reason to doubt the authenticity of these invoices and receipts. In one instance, however, MOI subsequently learned that a party representative has been accused in an Italian criminal proceeding of diverting to his own use funds which had been contributed by Mobil in good faith to the political party.

CONTRIBUTIONS TIED TO GOVERNMENTAL LEGISLATION

I shall turn now to the main question you have raised with us. That is whether Mobil's contributions were tied to specific governmental legislation. This same question was very much on our minds when we initiated our investigation—particularly because of suggestions in the press that petroleum company contributions in Italy had been related to specific legislation. Three particular subjects have achieved prominence.

THE SUEZ SUBSIDY

The first is the so-called Suez subsidy, adopted by the Italian Parliament in 1967 to offset added transportation costs arising out of the Suez Canal closing. This action was taken to avoid increasing prices to consumers for purposes of allowing recovery of these unavoidable costs.

THE MANUFACTURING TAX

Second, effective in May 1971, by action of the Italian Parliament, the manufacturing tax on petroleum products was reduced, again reflecting a decision by the Government to select an alternative to consumer price increases under its price control laws.

REMITTANCE OF EXCISE TAX OF PETROLEUM PRODUCTS

The third is the so-called deferred remittance of excise taxes on petroleum products. Until March 1968, each refinery company had been required to remit the tax at the time the product left the refinery—obviously well before the time the tax could be collected from the refiner's customers. In March 1968, the Italian Government modified this requirement to permit refiners to remit the tax within 30 days after delivery from the refinery, and such remittance could be deferred for an additional 60 days if the company paid interest during such additional 60-day period.

TIMESPAN OF ACTIONS

Of the above items, the Suez subsidy and the deferment of tax remittances were actions taken by the Government more than 2 full years before MOI made any contribution to a political party. The so-called defiscalization was promulgated during the period MOI was making contributions, but it hardly seems to fit the description of a special favor for Mobil. To the contrary, that action was considered unfair by MOI in not allowing full recovery of its cost increases despite many applications for relief to the Italian authorities.

THE PURPOSE OF THE CONTRIBUTIONS

I am aware of reports that the foregoing governmental measures may have been referred to in Italy by various persons, including personnel of the Unione Petrolifera, as being associated with political contributions by petroleum companies. However, I was assured by our general manager that whatever characterizations may have been applied by others, this did not reflect any agreement or understanding on his part and did not constitute the basis on which the management of MOI decided to and in fact did make contributions to the political parties.-

Senator CHURCH. What was the purpose of making the contributions if it was not to secure favorable treatment for the petroleum industry.

Mr. CHECKET. As stated to me by the general managers of MOI, the purpose of the contributions was to, in their view at that time, in furtherance to support the democratic process of government.

CONCEALMENT OF PAYMENTS

Senator CHURCH. Then why did you conceal it on your books?

That is a very good and laudable purpose. Why conceal it on your books?

Mr. CHECKET. My information is that the only reason for entering the items on the books at that time, that this was at the request of the political parties and was the custom for entering such items in Italy.

TAX BENEFITS

Senator CHURCH. Yesterday, in the testimony that was given to us by Exxon representatives, their own auditors pointed out that contributions which were made on the books but large parts of which were then secretly rebated, were carried in that form in order to secure tax benefits.

Was this not also the case with Mobil?

Mr. CHECKET. No, sir; that is not the reason why the entries were made in the books, not the stated purpose of political contributions.

I might say the agencies who issued the receipts were recognized agencies of the political parties and insofar as internally within the company, within MOI, while they were on the books, as other types of expenses, they were considered by the management as being political contributions, and not as anything else.

Senator CHURCH. Were they claimed as deductions on your tax returns to either the Italian Government or to the American Government? Were they claimed as business expenses and thus deductible for purposes of either the tax paid to the Italian Government or the American Government?

Mr. CHECKET. Insofar as the Italian Government is concerned, I have not examined the tax returns in detail. I can assume that they were taken as a tax deduction. However, our financial situation—

Senator CHURCH. They were taken as a tax deduction?

Mr. CHECKET. I assume that they were as a business expense.

Senator CHURCH. As a business expense?

Mr. CHECKET. I can say, sir, based upon the financial results of our Italian operation, that whether or not they had been or had not been would not have effected our tax payments as we had losses during this period well in excess of the return.

Insofar as the United States is concerned—

U.S. TAX IMPACT

Senator CHURCH. I was going to ask the second part.

Mr. CHECKET. There was no effect on U.S. tax returns. There were no dividends paid, and the Italian subsidiary has not consolidated its results. Therefore, the losses in the Italian subsidiary were not reflected in the U.S. tax returns.

Senator CHURCH. Well, the reason then that it had no impact on U.S. taxes was because the Italian subsidiary of the company was not earning money. Is that what you were saying, and, therefore, owed no tax, or dividends were not being returned to the United States and, therefore, the subsidiary or the parent company owed no tax—

Mr. CHECKET. That is correct.

Senator CHURCH. To the Government of the United States?

Mr. CHECKET. That is correct.

Senator CHURCH. Thank you.

FINDINGS OF MOBIL'S INVESTIGATION

Mr. CHECKET. I want to emphasize that MOI management co-operated fully in our investigation, and there were no indications of misuse of company funds.

That investigation confirmed to our satisfaction that the actions of Mobil Oil Italiana in making contributions to political parties in Italy were lawful there. I am also advised that there is no question of their legality in relation to the laws of the United States. The decisions were taken by MOI management for what I judge to be a valid and proper reason—namely the judgment that it was important for Mobil to support the democratic political process in Italy.

FALSIFICATION OF RECORDS AND ITALIAN LAW

Senator CHURCH. Is the falsification of records in accordance with the laws of Italy?

Mr. CHECKET. No, sir; if we are looking in retrospect it is not Mobil's policy to record entries in our books of accounts in other than a factual manner and—

Senator CHURCH. You have already testified that this was not the case insofar as the political contributions are concerned and they were not carried as such but carried as other kinds of expenses.

Mr. CHECKET. That is correct, sir, and—

Senator CHURCH. Is that in accordance with the laws of Italy?

Mr. CHECKET. I do not know—

Senator CHURCH. I think we can almost take judicial notice that falsification of record is contrary to the laws of all countries I know about. A corporation operates under a public charter. Falsification of its records clearly would be a violation of American law, and unless you can present some evidence to the contrary, the committee can take judicial notice it would be a violation of the Italian law.

Mr. CHECKET. I have no evidence to the contrary.

AUTHORIZATION OF CONTRIBUTIONS

Individual contributions were authorized by the general manager of Mobil Oil Italiana following consultations with the Mobil regional vice president in London. This was in accordance with our internal expenditure control procedures, and reflects the concept of decentralization under which we do business. Fundamentally, in our view each operating affiliate has its own mind and management, with responsibility for the conduct of operations in a particular country. In a particular country, Mobil management within that country tries to deal with its business problems as a good citizen of that country and within the parameters of the country's laws and customs.

THE EXECUTIVE COMMITTEE AND POLITICAL CONTRIBUTIONS

In this connection, by reason of the publicity given to the subject of political contributions, and its obvious sensitivity worldwide, the executive committee of our board of directors has recently instituted a new practice. Mobil affiliate managers have been requested to obtain the concurrence of the executive committee of Mobil Oil Corp. before committing to make any political contribution.

LEGALITY OF CORPORATE CONTRIBUTIONS

Mobil Oil Corporation as a U.S.-based company has a delicate balancing act to perform. On the one hand, the parent corporation must take every step necessary to assure that its activities are consistent with the applicable laws and policies of the United States. It does not follow, however, that every legal requirement of the United States achieves status as a standard to be applied throughout the world. The subject of corporate contributions to the political process is a case in point. Our Congress has determined that these are illegal in the United States. However, in many countries including Italy, corporate contributions to the political process are perfectly legal and are considered ethically proper as well. In fact, the Italian Parliament as recently as May 1974, has adopted a statute which expressly reconfirms the legality of such contributions by corporations where they are approved by the local company's board of directors and recorded on the company books. This law requires that such contributions be disclosed in the corporation's annual financial statements which are filed with the Italian authorities and are a matter of public record, and that they be publicly disclosed by the political party as well.

Senator CHURCH. Let us look at that because it really answers the question you were unable to answer a few minutes ago.

From your own statement, referring to the present Italian law, you testify that the Italian Parliament as recently as May 1974 has adopted a statute which expressly reconfirms the legality of such contributions by corporations where they are approved by the local company's board of directors and recorded on the company's books.

DISCLOSURE UNDER ITALIAN LAW

Mr. CHECKET. That requirement is effective as of May, 1974, the approval of the board of directors and publicly disclosed.

Senator CHURCH. This law in 1974 also imposes an obligation to disclose those contributions publicly, does it not?

Mr. CHECKET. Yes, they are to be publicly disclosed by the political party as well as in our financial statement.

Senator CHURCH. But the company has an obligation under Italian law to make the disclosure?

Mr. CHECKET. That is correct.

Senator CHURCH. You testified a moment ago that Mobil affiliate managers have been requested to obtain the concurrence of the executive committee of Mobil Oil Corp. before being permitted to make any political contributions.

I take it by that that the practice of making political contributions has not been stopped but that it requires the concurrence of the Mobil affiliate, concurrence of the executive committee of the Mobil Oil Corp., is that correct?

Mr. CHECKET. That is correct.

Senator CHURCH. Under the new practice of the company?

Mr. CHECKET. Yes.

You have asked us to express a view as to what action the U.S. Government might wisely take in this area. We at Mobil believe that something in the area of disclosure would be both appropriate and salutary. Disclosure as to political contributions seems to be the develop-

ing trend in various countries. It is, I am informed, a requirement of English and German law with respect to corporate political contributions. Under recent legislation in Canada, and, as I mentioned, in Italy, I understand disclosure of corporate political contributions is now required. In some cases the requirement is disclosure by the recipient political party or candidate. In some cases it is the requirement of disclosure by the donor corporation. Disclosure has, of course, been the rule for Federal elections in the United States ever since 1972, although this law flatly prohibits contributions by corporations.

So far the requirements in the countries I have mentioned deal only with disclosure of contributions in the country concerned. None, I understand, deal with contributions elsewhere. Nevertheless, action by the United States which would affect companies doing business abroad and their activities in other countries would not be inconsistent with this developing pattern. It could be helpful in dealing with requests for political contributions.

Formulating an appropriate disclosure formula will require careful study of many considerations, but we think a reasonable and effective requirement should be possible. We understand the Securities and Exchange Commission is currently giving this matter in-depth consideration, and contemplates a release in the not too distant future formulating some form of appropriate disclosure requirement. The SEC is, of course, uniquely well qualified to formulate an appropriate disclosure requirement. We at Mobil would welcome such action.

COMPLIANCE WITH THE LAW

After 27 years in the international business world, I am persuaded that the first test for any multinational corporation such as ours, and its affiliated companies, is that it must be a good citizen in each country where it does business. First and foremost, this requires strict compliance with the laws of each country. I can assure you that Mobil managers of our international operations have this requirement very clearly in mind.

I believe that covers the main points. I would now be happy to respond to any of your questions.

Thank you.

RECOMMENDATION OF DISCLOSURE

Senator CHURCH. Thank you very much for your statement, Mr. Checket, and for the recommendation that you made with respect to disclosure.

In line with that recommendation and the propriety of disclosure, has the Mobil company made political contributions in other countries besides Italy between 1970 and 1975?

CANADIAN CONTRIBUTIONS

Mr. CHECKET. Yes, the corporation did make political contributions in Canada.

Senator CHURCH. In Canada?

Mr. CHECKET. Yes.

Senator CHURCH. In any other country besides Italy and Canada?

Mr. CHECKET. To the best of my knowledge, no, sir.

AMOUNTS CONTRIBUTED IN ITALY

Senator CHURCH. Now, the contributions the company made in Italy averaged a little more than \$500,000 a year, did it not?

Mr. CHECKET. Yes.

Senator CHURCH. We are told that in 1970, \$111,000 was contributed to the Socialist Party; \$104,000 was contributed to the Christian Democratic Party; in 1971, \$554,000 was contributed to the Socialist Party; \$163,000 was to the Campaign Region Coalition Parties; and \$253,000 to the Christian Democratic Party.

In 1972, \$415,000 was contributed to the Christian Democratic Party and \$497,000 was contributed to the Social Democratic Party.

In 1973 the contributions fall off very sharply—\$33,000 went to the Unione Petrolifera and \$5,000 to Shell Italiana. Those do not appear to be political parties.

IDENTIFICATION OF TRADE ASSOCIATIONS

Can you tell us, can you identify what Unione Petrolifera and Shell Italiana are? They look to be trade associations.

Mr. CHECKET. Yes. The Unione Petrolifera in the amount of \$33,000 was an amount of interest. We included it in this compilation. There was a contribution made, the so-called ENEL contribution in Italy which was committed by the then president of the Unione Petrolifera, the trade association and paid to the political party through the National Electricity Co., called ENI. The president of the trade association without prior advice to any member entered into an overdraft agreement with a bank to borrow the money and incurred an interest expense.

Senator CHURCH. Let me understand this. The Unione Petrolifera is a trade association?

Mr. CHECKET. Yes.

Senator CHURCH. Who belongs to it?

Mr. CHECKET. The various petroleum companies operating in Italy.

Senator CHURCH. Are these foreign-owned petroleum companies or both foreign-owned and Italian-owned?

Mr. CHECKET. Both foreign-owned and Italian.

Senator CHURCH. Both foreign-owned and Italian?

Mr. CHECKET. Yes.

Senator CHURCH. This association, as I understand your testimony, borrowed money from Italian banks in order to make contributions on behalf of the oil industry?

THE ROLE OF MR. CAZZANIGA

Mr. CHECKET. Yes. The president of the trade association, Mr. Cazzaniga, on his own arranged a borrowing.

Senator CHURCH. This was Mr. Cazzaniga?

Mr. CHECKET. Yes. He at the same time as president of Exxon Italiana was president of the Unione Petrolifera.

Senator CHURCH. And he borrowed the money and then assessed it to the various oil companies their part of the obligation, the part they would have to pay in to repay the loan from the bank?

Mr. CHECKET. Subsequently in 1972, at an annual meeting of the association Mr. Cazzaniga informed the membership as to what had

occurred and stated that the association was required to repay the overdraft that he had taken in the name of the association and that otherwise the association would be bankrupt and asked the member companies to reimburse or put the association in funds with which to repay the bank overdraft, and the \$33,000 reflected here——

COMPANIES' ROLE IN REPAYMENT OF LOAN

Senator CHURCH. It did not happen once. It happened at least on two different occasions, is that correct, that the various companies were assessed for purposes of repaying the loan that the association had obtained?

Mr. CHECKET. It was only the one time. There was a question of the allocation of to what portion each company would be assessed in straightening it out, and this resulted in the revision of the first number that was different even to MOI and the additional amounts to be paid.

Senator CHURCH. So we have the full understanding of the particular transaction, and I am reading from a report of your general counsel, Mr. Shepard, to you, Mr. Checket on page 2 of that report, your counsel states that:

Mobil Oil Italiana deposited \$33,000 to the Italcasse Bank account of the UP to pay interest costs incurred by UP on a bank loan for the purpose of making political contributions to the parties through ENEL discussed below. This amount was not a direct political contribution by MOI, Mobil Oil, but we have included it in the total since it was effectively Mobil Oil cost directly related to such contributions. This item is documented by Mobil Oil's normal bank account records.

Then item 3:

Mobil Oil deposited \$5,000 to the bank account of Shell Italiana in response to revised recommendations from UP as to the respective amounts that Shell and Mobil Oil should contribute to the political parties.

Again the documentation is Mobil Oil's normal bank account records. No doubt has been raised that this amount had been contributed by Shell to one of the established political parties.

Then at the bottom of that page there appears to be still another deposit:

In April or May of 1972 Mobil Oil was requested to deposit funds to the account of UP to enable it to repay a bank loan which had been incurred by the trade association to make the political contributions through ENEL.

Now reading these three together we assume that there may have been two different loans. Clearly you made at least two different deposits to pay——

Mr. CHECKET. That is correct.

Senator CHURCH (continuing). Mobil Oil's part?

Mr. CHECKET. That is right. But the reference at the bottom of the page refers to the same one as the top of the page.

THE \$5,000 PAYMENT TO SHELL'S ACCOUNT

Senator CHURCH. Now, if you had underpaid on your assessed political contributions, why did you deposit \$5,000 in Shell's account rather than pay it directly to either UP or the political party.

Mr. CHECKET. As I understand it, sir, after the assessments were made there was a recalculation or readjustment wherein it was determined that Shell had paid \$5,000. The equivalent of \$5,000 too much and since they had already disbursed it I am informed that they asked us to make the money payable direct to the Shell Co.

ASSESSMENT OF PAYMENTS TO TRADE ASSOCIATION

Senator CHURCH. So what we really have here is an entire industry that has entered into an arrangement through its trade association to make contributions for political purposes and each company is in effect assessed, each itself calculated how much each company should pay and Shell and Mobil paid its part?

Mr. CHECKET. Yes, in this case, as I mentioned before, the incurring of the debt was without the prior knowledge of any of the member companies and decision to pay the money at this point was to really save the association from going bankrupt. This was the only occasion that that type of incident occurred.

Senator CHURCH. The association was empowered to borrow money for making political contributions on behalf of the oil companies so it then could come to the companies and say each company now pay so much of this to repay the loan? That must have been known to the oil companies or at least obviously was acceptable to them when they were presented with the bill?

Mr. CHECKET. No, sir, it is my information that the arrangements for the loan were done solely at the instance of the then president of the association without prior reference to any of the companies and their first advice as to these payments was at the annual meeting in 1972 of the association at which time the president advised the companies of his past actions.

THE BASIS FOR THE ASSESSMENT

Senator CHURCH. What was the basis of the assessment that was agreed upon? Was that assessment based on the market share of each company in Italy?

Mr. CHECKET. I am not aware of exactly the means or the basis as to how the allocation was made.

Senator CHURCH. You are not able to answer the question?

Mr. CHECKET. Yes.

MR. LEHMANN'S TESTIMONY

Senator CHURCH. Well, we are advised that the head of Mobil Italiana, Mr. Lehmann, in testimony he has given, has indicated that some of the payments made by Mobil, which you have characterized as contributions to political parties in Italy, were related to the advantages derived by certain Government decrees or legislation.

Are you aware of this?

Mr. CHECKET. No, sir, I am not aware of it. I believe that is not quite correct, sir.

Senator CHURCH. Would you then state the case as you understand it?

Mr. CHECKET. As I understand the situation, sir——

Senator CHURCH. Pardon me.

Mr. CHECKET. As I understand the situation, sir, Mr. Lehmann in his testimony before the Parliamentary Commission took the stance that his contributions to the political parties were not tied in any way insofar as Mobil was concerned to any legislative act or grants by the Government.

BENEFITS TO MOBIL AND THE INDUSTRY

Senator CHURCH. You have been very careful in your answers, and you should be careful to say that contributions not related in any way to benefits to Mobil were received.

Can you under oath make the same statement with respect to benefits that may have been received by the oil industry generally in Italy?

Mr. CHECKET. I am sorry, sir, I am not in any position to speak for the rest of the industry.

Senator CHURCH. You cannot speak for the balance?

Mr. CHECKET. No, sir.

MR. LEHMAN'S TESTIMONY BEFORE PARLIAMENTARY COMMISSION

Senator CASE. You referred to a Mr. Lehmann, was it?

Mr. CHECKET. Mr. Lehmann.

Senator CASE. Who testified before a Parliamentary Commission?

Mr. CHECKET. In Italy.

Senator CASE. And said that the Mobil contributions to the Socialists had not been made or used for the purpose of obtaining particular favors from the Government?

Mr. CHECKET. That is correct.

Senator CASE. Did he say that with respect to all of the contributors to this?

Mr. CHECKET. He was only speaking on behalf of his own company.

Senator CASE. I see.

PAYMENTS THROUGH ENEL

Senator CHURCH. Is it not true that some of the payments that were made to political parties were funneled through ENEL, the Italian electric utility company.

Mr. CHECKET. That is the payments that we have just been talking about were connected to the overdraft that was done by the president of the association on his own behalf.

Senator CHURCH. Why was this done? Why were the payments made through such a channel?

Mr. CHECKET. I have no explanation for it, sir, as to why the president of the association chose this route to make contributions.

Senator CHURCH. Well, is it not true that the size of those contributions related to the deliveries Mobil makes to ENEL?

Mr. CHECKET. In Mr. Lehmann's statement he did indicate that that might be the basis for the assessment.

I might say, sir, in connection with the reimbursement to the Unione Petrolifera, with the exception of the interest we did receive a receipt from the designated agency of the political party for our share of the moneys that were paid to the political parties through ENEL.

Senator CASE. It is getting pretty close to payment for business, is it not, if the contribution is based upon the amount of oil you sell to a State-owned business?

Mr. CHECKET. With the exception the money was not retained by ENEL.

Senator CASE. If it were retained by ENEL then you could say it was commission or something on business actually done and it would be more understandable; but when the money is turned over to the political parties of the country on the basis of the amount of State business that is done by your company, it seems to me that is getting a little different than just making a contribution for the purpose of maintaining a democratic system in Italy.

MOBIL'S KNOWLEDGE OF PAYMENTS

Mr. CHECKET. Sir, this was after the fact insofar as we were concerned on those contributions. I said the president of the association made the commitment and affected the payments without the knowledge of members, the other members of the association, certainly including Mobil.

Senator CASE. But there came a time when you did?

Mr. CHECKET. Yes.

Senator CASE. There came a time when you did know the payments were made to the political parties?

Mr. CHECKET. That is correct.

Senator CASE. There came a time you did know that the amount of the payment that you were assessed for, and the assessment accepted by you, was based upon the amount of your sale of fuel to this State-owned electric company?

Mr. CHECKET. It was indicated in Mr. Lehmann's testimony that this was a possible means of the allocation. I cannot say for certain here that it was exactly based on the deliveries.

Senator CASE. Did anybody in the company know how the assessments for the several participants, you and the other oil companies, were computed at the time they were made?

Mr. CHECKET. At the time the contributions were made, sir?

Senator CASE. Yes.

Mr. CHECKET. If I understand the question, sir, the payments were made prior to our knowledge that any payments had been made and no payments were made to the ENEL account subsequent to the advice to the members of the association that the overdraft was due and had to be reimbursed to the bank.

Senator CASE. That is not quite the point. When did you learn this?

Mr. CHECKET. In 1972, sir.

MOBIL'S ACCEPTANCE OF ASSESSMENT

Senator CASE. You accepted the amount that you were assessed by the association?

Mr. CHECKET. Yes. I do not know how much discussion went on among the parties as to the allocation but we did finally accept an amount of money that was paid, yes.

Senator CASE. Did representatives of your company know how that was calculated?

Mr. CHECKET. I am not certain, I cannot say with certainty that they knew exactly how the amount was calculated.

Senator CASE. I mean in a general way.

Mr. CHECKET. The only statement in that regard was in Mr. Lehmann's.

Senator CASE. What did you find out from the company source, not something that your man told the public inquiry—I am talking about your actual knowledge, or the knowledge that has come to you through company sources?

Mr. CHECKET. I have no other knowledge through company sources as to how it was allocated.

Senator CASE. Was this not inquired into by the company?

Mr. CHECKET. We inquired—

Senator CASE. Did the company outside of the Italian manager know that these payments were made?

Mr. CHECKET. I understand, sir, that the question of ENEL payments and the request for reimbursement were advised to the then regional vice president in London.

Senator CASE. In Italy?

Mr. CHECKET. In London.

INFORMING MOBIL'S CENTRAL OFFICE

Senator CASE. And was any of that knowledge transmitted to the New York office or to the central office, wherever it is.

Mr. CHECKET. Not to the best of my knowledge.

Senator CASE. I see. Was it regarded as important?

Mr. CHECKET. I do not know what was in the regional vice president's mind.

Senator CASE. But you do know, you do not know, nobody can know a negative fact, but as far as you know the central office had no knowledge of this whole transaction.

Mr. CHECKET. That is correct.

Senator CASE. Or any payments made in respect of to political parties in Italy?

Mr. CHECKET. No, sir. In my testimony I did say that in 1970, when the general manager of Mobil Oil Italiana—

Senator CASE. General manager what?

Mr. CHECKET. General manager of Mobil Oil Italiana, the subsidiary in Italy, decided to reverse the stance that he had taken theretofore and recommended political contributions, this was advised to the regional vice president and was discussed with the division management in New York prior to the commencement of making it—

Senator CASE. Where does the division manager stand in New York, stand with regulation to the management of the company?

THE NUMBER OF MOBIL VICE PRESIDENTS AND ACCOUNTABILITY

Mr. CHECKET. The executive vice president of the division, to whom it was initially reported, is a vice president of the corporation.

Senator CASE. How many vice presidents of this rank do you have?

Mr. CHECKET. I am not certain of the exact number. Perhaps—

Senator CASE. Perhaps a general figure of about 50?

Mr. CHECKET. No, sir.

Senator CASE. What?

Mr. CHECKET. No, sir. There could be possibly 10 or 12.

Senator CASE. He would report to whom?

Mr. CHECKET. He would report to the divisional president who would be an executive vice president and director of the corporation.

Senator CASE. Where would that executive vice president stand in relation to the management of the company in the whole management picture?

Mr. CHECKET. He would be one of the senior executives, top executives of the corporation.

Senator CASE. How much up the line would information like this get? Somebody in New York, the regional vice president, was told this by the man in London? Would it end there?

Mr. CHECKET. For clarity, the general manager reports to the regional vice president based in London, and in 1970, the regional vice president informed the division management in New York as to the—

Senator CASE. Policy?

Mr. CHECKET. Policy and obtained concurrence of the division management on the basis that the political contributions were lawful in Italy and for the reasons expressed obtained understanding that they could proceed.

Senator CHURCH. In other words, this was known and authorized all the way up to the top of the company?

Mr. CHECKET. Of the division, yes.

Senator CASE. That is what I am trying to get at. Was this expressed in a document?

Mr. CHECKET. No, sir.

Senator CASE. What was in the mind of the man who made the decision—how did it then come to your knowledge that it was done, because it was an illegal matter.

Mr. CHECKET. No, sir, he based his decision on the fact and on the advice that such payments were lawful in Italy.

Senator CASE. How do you know that he did that?

Mr. CHECKET. I was informed.

Senator CASE. By whom?

Mr. CHECKET. By the individual concerned.

Senator CASE. Is he still around?

Mr. CHECKET. Yes.

Senator CASE. What is his present position?

Mr. CHECKET. He is the president of the division today.

Senator CASE. He has been promoted?

Mr. CHECKET. Yes. [Laughter.]

Senator CASE. Now, did he tell you that he—

Mr. CHECKET. Pardon.

Senator CASE. Did he tell you whether he had consulted his superiors on this important matter?

Mr. CHECKET. He told me he had so advised his superiors.

Senator CASE. Did he say who was the person that he advised?

Mr. CHECKET. Yes; the division president.

Senator CASE. Did you talk with the division president?

Mr. CHECKET. No, sir.

Senator CASE. Is he around still?

Mr. CHECKET. He has retired.

Senator CASE. But he is living?

Mr. CHECKET. Oh, yes.

Senator CASE. And able to talk to——

Mr. CHECKET. I have not talked with the division president, then division president.

Senator CASE. You do not know whether he did or did not then tell his superiors?

Mr. CHECKET. No, sir I do not.

Senator CHURCH. So what we have here, to recapitulate, then I want to turn to Senator Clark who has some questions—yesterday we learned that Exxon over a period of 10 years, through its Italian subsidiary contributed somewhere between \$45 and \$50 million to political parties in Italy, much of which was misappropriated, rebated, under records that were falsified.

Today we learn that Mobil, another company with a subsidiary in Italy, contributed on the average of half a million a year, which was authorized by the company under records which were falsified.

We further learn that an association to which all of the companies belonged borrowed money for purposes of making political contributions, and then in order to repay that money made assessments against its membership, the companies.

We further learn through Mr. Lehmann's testimony that the allocation was based upon the amount of oil the companies sold to the Italian electric utility company. The Italian electric utility, ENEL, is Government owned. It is a Government utility that is deciding whether to build oil plants for generating electricity or nuclear plants, and deciding what kind of fuel to use. This government-owned utility can either favor oil or adopt some other policy less to the favor of oil.

When it comes to the repayment of the association's borrowing for making political payments to the parties of Italy, and the interest that accrued on that loan, we find that money was channeled through ENEL and that the amount each company pays is based upon how much each company sold to ENEL.

It does not come as any great surprise to me, with this kind of operation in Italy, that the Communists scored such gains in the last elections, the major issue being corruption. We have just got to find a way to put a stop to this epidemic of corruption, if we are not going to do ourselves in.

MONEY TO ITALIAN POLITICIANS

Do you have any reason to believe that any of the contributions made were pocketed by Italian politicians?

Mr. CHECKET. Only with one exception, sir, that I mentioned in my testimony. Other than that——

Senator CHURCH. You know of one case?

Mr. CHECKET. One case.

Senator CHURCH. Where the money was actually pocketed by an Italian politician?

Mr. CHECKET. Yes; at least he has been accused in the courts, sir.

Senator CHURCH. He has been accused of having pocketed the money?

Mr. CHECKET. Yes.

Senator CHURCH. Otherwise, it is your belief that the money did in fact go to these various political parties that I have named?

Mr. CHECKET. Yes.

CLARIFICATION OF BOOK ENTRIES

Mr. Chairman, Mr. Birrell would like to make a clarifying statement on the legality of the book entries, if you would so permit?

Senator CHURCH. Certainly.

Mr. BIRRELL. Mr. Chairman, I would like respectfully to differ with your characterization of the book entries as being thoroughly unlawful under Italian law.

The applicable law at that time related to the balance sheet and profit and loss statements of an Italian company. We are advised that entries on the books of the company would be unlawful and improper if they were entered in a manner which defrauded or deceived somebody. In this case, to our knowledge, at least, nobody has either been defrauded or deceived.

Senator CHURCH. Wait a minute.

Mr. BIRRELL. Certainly internally.

Senator CHURCH. I don't understand that. I don't understand that.

First of all—

Mr. BIRRELL. May I finish?

Senator CHURCH. Well, yes, please explain why nobody has been deceived by entries which are false.

Mr. BIRRELL. I believe I can explain that to you. We have already indicated to you that we secured invoices or receipts from agencies of the political parties involved. In every case but one, those are clearly-recognized creatures of the particular political party to whom the contribution went. Those receipts were accepted because that was all the political party would give us. Anybody in Italy who looked at those entries would know that there was a connection between that agency and the political party to whom the political contribution went.

Therefore, since nobody was defrauded or deceived, I don't believe that there was any violation of Italian law.

Let me emphasize that these weren't book entries which were totally fictitious that stated a transaction that was totally unrelated to the full transaction which occurred.

Thank you.

A LAWYER'S ARGUMENT

Senator CHURCH. Thank you. As one lawyer to another, let me say with all respect that is an argument that only a lawyer could make, because when you put in the books that was money that was spent for one purpose when in fact it was spent for another, I think that has the tendency to mislead people who read the books.

Mr. BIRRELL. Even if nobody was deceived in any way?

Senator CHURCH. Whether or not that was a violation of Italian law, I will leave to you. The ethics of the matter are pretty clear.

Mr. BIRRELL. You say that even though nobody was deceived by it?

Senator CHURCH. The political parties that received the money weren't deceived, they knew what was going on. Italian politicians

may have known what was going on, but there is sufficient concern as to the propriety of what was going on that is now the subject of a major legislative inquiry, a major parliamentary inquiry in Italy today.

Senator CHURCH. Senator Clark.

Senator CLARK. Just a few questions, Mr. Chairman, of a very general nature, Mr. Checket.

REASONS FOR FALSIFYING THE RECORD

Why did you in fact falsify the records with regard to your Italian contributions? Who did you wish to deceive, since that word has been used? Why were they not simply recorded in an open way as you would if you contributed to an American party? Why did you do that?

Mr. CHECKET. It's my understanding, Senator, that entries were made as such at the request of the political parties.

Senator CLARK. You falsified the records because the political parties requested it?

Mr. CHECKET. They were reflected in the manner they were because they did request it; yes, sir.

Senator CLARK. Now, why do you suppose that was the case? Did you ever examine that or do you just do what a political party asks you to do in such cases? You as a responsible corporate official must have made a decision as to when you were going to cooperate with the political party or not. Why did you decide to do that?

Mr. CHECKET. Since I was not involved in the decision——

Senator CLARK. Your company that you represent here today?

Mr. CHECKET. My information from the general manager is that this was the custom being followed in Italy on such contributions and that he merely followed the custom that was then in effect.

THE STOCKHOLDERS' INTEREST

Senator CLARK. But you weren't simply following custom. I should think as a corporation you were clearly making a decision to do this in accordance with that custom in the interest of your shareholders, as I assume. You were not as interested in preserving the customs of Italian politics as you are in preserving your stockholders' interest when you agree to that decision, are you not?

Mr. CHECKET. That is correct.

Senator CLARK. So it was a decision made on behalf of the stockholders to keep this secret? That was the ultimate purpose for it?

Mr. CHECKET. No, sir.

Senator CLARK. What was the ultimate purpose of keeping it secret or falsifying the records?

ITALIAN CUSTOMS

Mr. CHECKET. The decision by the general manager in Italy to record the entries on the books, it was his decision at that time in accordance with the custom in Italy. In our case we did not try to keep it a secret. It has always been considered by them as political

contributions and that is why we have acknowledged them as political contributions irrespective of the manner in which they were recorded on the books.

PROMOTING DEMOCRACY

Senator CLARK. You have said throughout and very consistently your sole purpose of these contributions was in the interest of promoting democratic government in Italy. Why could the democratic government in Italy be better served by having kept this secret? I have said falsify or deceived. If you prefer surreptitiously recording them. Why would democracy be better preserved under those circumstances, in your judgment?

Mr. CHECKET. Senator, in my judgment—

Senator CLARK. I can't quite hear.

Mr. CHECKET. In my judgment they are not better preserved by recording them as they were recorded.

Senator CLARK. Do you think the management of your company was wrong in having done that in that way? You don't think democracy was better preserved for having recorded them in this way.

Mr. CHECKET. That is correct, democratic process was not.

Senator CLARK. I'm sorry.

Mr. CHECKET. I was repeating the democratic process was not better served.

Senator CLARK. There are about 150 countries in the world. You have testified you made contributions for the preservation of democracy in only two of these. Why those two? Why Canada and Italy as distinguished from others? There are many countries in which corporations can make contributions. Why is it limited to those two, as you understand it?

Mr. CHECKET. As I understand it, sir, we were requested for contributions. We consciously did it because of the opinion of the manager in Italy at the time under the circumstances at the time. In other countries I cannot speak for each general manager. I can say from my own experience that the occasion never arose in the form of government in those countries that we were ever requested nor did we ever think it was necessary for the corporation to make political contributions.

Senator CLARK. Well, you are saying that, it's your testimony, that political parties in other countries did not approach your company or corporation and ask them for political contributions?

Mr. CHECKET. I cannot say that they did not.

Senator CLARK. To your knowledge?

Mr. CHECKET. To my knowledge they did not.

PRESERVING DEMOCRACY VS. GETTING FAVORS

Senator CLARK. Well now, just follow through a little more on this question of preserving democracy, because it isn't just a question of your use of this term but when in fact that was the motivation as distinguished from the motivation of trying to get favors. That is the real question.

Now, if we think about that, why in fact you were interested in preserving democracy in this way, the question arises as to why you

were not solicited for money prior to your first contribution. You started your contributions in 1970?

Mr. CHECKET. Yes, sir.

Senator CLARK. Were you not solicited before that?

Mr. CHECKET. There were suggestions made to the management of the company prior to that, yes, sir.

Senator CLARK. And you didn't do it then?

Mr. CHECKET. No, sir.

Senator CLARK. Why not? Why did you decide—

Mr. CHECKET. The general manager at that time in the period prior to 1970 did not feel it was necessary to do so.

Senator CLARK. Democracy was not as much in danger in the pre-1970 period?

Mr. CHECKET. I cannot say for certain on his mental processes at that time but it was as he assessed the situation in 1970 in Italy.

Senator CLARK. From the point of view of preserving democratic government exclusively?

Mr. CHECKET. According to his advice to myself, yes sir.

Senator CLARK. So your contributions were limited to 4 years, as I understand it.

Mr. CHECKET. Yes, sir.

Senator CLARK. Those were the only years in which your company took that kind of interest in preserving democracy in Italy, from 1970 to 1974?

OIL SOLD TO ENEL

Senator CHURCH. May I just say that the interest apparently was measured on the basis of how much oil was sold to ENEL. That determined the amount of the contribution.

Senator CLARK. Let me put a proposition to you and ask you to comment on it in that regard.

ACCUSATIONS BY ITALIAN AUTHORITIES

Mobil is one of 15 oil companies in Italy that is accused, as the Chairman said, I believe, by Italian judicial authorities for having bought favorable legislation with political contributions. Isn't that true?

Mr. CHECKET. In the recent investigation in Italy on the subject of political contributions, yes, sir.

Senator CLARK. The favors allegedly bought include Government policy of favoring fuel oil powerplants over atomic plants. And this of course is connected with what Chairman Church was talking about, ENEL, and payment for that policy is said to have been made by the companies to Italcasse Bank on account of Unione Petroliera which in turn reimbursed Telcona for advances made to the political parties.

What is your reaction to that allegation?

Mr. CHECKET. Well sir, as I said before, and I do not agree with Senator Church's last statement that it was measured by the sales to ENEL. But as testified before, the contributions through the ENEL vehicle or ENEL system were made by the then president of the trade association without the prior knowledge, certainly of Mobil Oil Italiana, and to the best of our knowledge any other member of the trade association. It has no connection with any favors that may or may not have been granted.

WHY PAYMENT WAS MADE

Senator CHURCH. Then why did you pay it if it's all done without the knowledge and authority of the companies? Why did the companies divvy up, according to allocation which we are told was based upon the amount of oil sold to ENEL?

Mr. CHECKET. The only reason that was given for reimbursing that the president of the association has placed the association in a situation where it was about to go bankrupt and decision was whether or not to permit the association to default on the overdraft which he had taken out in the name of the association.

Senator CHURCH. Well, why didn't you let it go broke? If your testimony is to be credible, the companies had no knowledge after the fact and were told they had to repay a large amount of money, and it was going to be allocated among them on the basis of the oil it sold to the Italian Government. Why did you put up with such a scheme?

Mr. CHECKET. Well—

Senator CHURCH. If you didn't recognize what was going on and the fact it had been making for 5 years a half a million dollars worth of political contributions through Mobil itself and other companies. Obviously you were doing the same thing. So when your association comes to you and says we have got an overdraft, and we borrowed the money to make advanced payments, it was all a pattern. You immediately said OK, we will divvy up our shares.

That is the only way one can interpret the facts.

Mr. CHECKET. First, it's a matter of correctness in the amounts. The ENEL payments were not in addition to the \$504,000, they were a part of the \$504,000.

Senator CHURCH. Very well. It makes no difference.

Mr. CHECKET. And certainly the manager at that time of Mobil Italiana did not believe it to be in the best interests for the trade association to go bankrupt.

Mr. BLUM. Are you still members of that trade association?

Mr. CHECKET. Yes, sir, we are.—

THE PRESIDENT'S AUTHORITY

Mr. BLUM. Has the president's authority been cut back somewhat?

Mr. CHECKET. I would assume so, sir.

Mr. BLUM. Can you say that with certainty?

Mr. CHECKET. No further transactions to the best of our knowledge have been made in this regard. There is a new president of the association.

Senator CLARK. In that connection, the authority, of course, occurs if you were not aware of where these contributions were going and not aware of the fact that they were going to ENEL, which I believe may well have had some affect on the Government's decision to go to fuel oil rather than atomic power. Maybe you can throw some light on that. But it raises the question if there were no quid pro quos, how did your company evaluate the requests as they came in? How did you know how much to give? How did you decide when this would be a good idea or a bad idea, when it was too much or too little, when you were assessed? What was the criteria used? Did you irresponsibly say we will do whatever they ask of us? What criteria did you use?

TESTIMONY OF GENERAL MANAGER OF MOBIL ITALIANA
BEFORE PARLIAMENTARY COMMISSION

Mr. CHECKET. The general manager of Mobil Italiana, as he has so testified before the Parliamentary Commission, reviewed the amounts and decided as to whether or not they seemed appropriate.

Senator CLARK. Appropriate in what sense, the democratic preservation or what sense?

Mr. CHECKET. Yes; in accordance with the size of our company, I suppose, and the share of whatever political contributions.

Mrs. LEWIS. Did he review the contributions of other companies?

Mr. CHECKET. To the best of my knowledge he did not.

Mrs. LEWIS. Was information provided to him as to how much other companies contributed?

Mr. CHECKET. To the best of my knowledge, no.

Senator CLARK. Well, in fact, hasn't Mr. Lehmann said something to the effect that, or testified something to the effect that various contributions were affected on the basis of the deliveries to ENEL?

Mr. CHECKET. Again, for clarification, sir, the ENEL payments were the reimbursement through the bank of the overdraft that had been incurred on behalf of the association by the then president of the association.

Senator CLARK. But it was linked to deliveries?

Mr. CHECKET. According to the testimony of Mr. Lehmann there's indication that it might have been related to deliveries. I do not—

Senator CLARK. You say Mr.—

Mr. CHECKET. I do not know for certain that is the way the allocation was made for the reimbursement of the bank overdraft.

Senator CLARK. Do you agree that Mr. Lehmann may have testified there was a connection between deliveries and the contributions?

Mr. CHECKET. That is correct.

Senator CLARK. Would you identify Mr. Lehmann again for the record?

Mr. CHECKET. Mr. Lehmann is general manager of Mobil Oil Italiana.

Senator CLARK. General Manager of Mobil Oil Italiana?

Mr. CHECKET. Yes, sir.

Senator CLARK. Do you agree with that testimony? Do you find any problem with that?

Mr. CHECKET. Sir, it's a question, (a) as to when it was proper to reimburse the trade association for the overdraft.

Now, there would be many ways once that decision was taken to bail out the trade association so it can meet its monetary obligations. There could be many ways in which an assessment could be put upon the members and I'm not prepared to judge what would be the best method at that time to have affected this reimbursement of the overdraft.

Senator CLARK. If it was linked in the case how do we know it wasn't in others?

HOW PAYMENTS WERE MADE

Mr. CHECKET. In the other instances, sir, the payments of the political contributions to the political parties were made directly

by Mobil Oil Italiana to the designated agency of the political party and for which we obtained invoices and receipts.

Senator CLARK. Were any sums contributed on behalf of another oil company in Italy, for example, Shell?

THE SHELL REIMBURSEMENT

Mr. CHECKET. They were not contributed on behalf of Shell. The Shell \$5,000 reimbursement was part of the settlement in the calculation of the repayment of the overdraft.

Senator CLARK. So it was made in connection rather than on behalf of.

Mr. CHECKET. That is correct.

Senator CLARK. And why was this done again? Just so we are clear on that, why did you make it in connection with Shell?

Mr. CHECKET. That was a payment to Shell, sir. That was a payment made by Mobil Italiana to Shell Oil Italiana and this was in the final settlement in the allocation of the repayment of the overdraft that we have mentioned before, sir.

MOBIL'S PURCHASE OF ARAL

Senator CLARK. Can you briefly explain to me the history of Mobil's purchase of the interests of ARAL in Italy?

Mr. CHECKET. ARAL is a German based retail marketing company with some foreign operations outside of Germany. They had a relatively small network in Italy and had decided that the situation was such that they would like to dispose of their assets and Mobil acquired their assets in Italy.

Senator CLARK. Do you have any knowledge or understanding that they may have made payments to the Italian parties?

Mr. CHECKET. The only reference that I have seen to ARAL in payments was on Mr. Lehmann's testimony.

AUTHORIZATION OF PAYMENT

Senator CLARK. Now, as I understand it, the major contributions were authorized by Mr. Lehmann who arrived in Italy in 1972 and became president of Mobil Oil Italiana. He arrived in April and began authorizing payments in June. Can it be supposed that Mr. Lehmann, who didn't even speak Italian, was following a policy which had already been established within Mobil Italiana when he arrived?

Mr. CHECKET. Mr. Lehmann assumed the position of head of Mobil Oil Italiana in April. He arrived there sometime prior to that for a turnover period.

Mr. Lehmann is an experienced manager in the Mobil system and to the best of my knowledge he made his decision on his own account.

Senator CLARK. He never participated in any kind of decision with regard to political contributions in France on behalf of Mobil Oil?

MOBIL'S INVESTIGATION

Mr. CHECKET. To the best of my knowledge, that is correct.

Mr. BLUM. Mr. Checket, who made the investigation for these political contributions on behalf of Mobil management? Was that your investigation?

Mr. CHECKET. Yes, sir, I sent my legal counsel in London to Rome to conduct the investigation, and had discussions with the general manager.

Mr. BLUM. Did you ever receive a written report of that investigation?

Mr. CHECKET. At that time I did not receive a written report. We have recently received a document which has been turned over to the staff.

Mr. BLUM. Now, I asked that because in every other case of political contributions with which we have dealt, when the facts became known to senior management audit teams were sent out, verifications were done, systematic audits were done, and written reports were furnished to top management. Apparently, from your testimony that was not the case in Mobil's situation.

Why was there no written report, so to speak, with respect to this?

Mr. CHECKET. In our particular situation we have no indication and no indication of any misuse of company funds as may have been the situation in other companies and at this point we had advice that they were legal contributions and at that time this was the sole basis of the investigation which was then being commenced by the Parliamentary Commission in Italy.

Mr. BLUM. Were any written reports submitted to your board of directors?

Mr. CHECKET. Not to the best of my knowledge.

Mr. BLUM. Were there any queries in writing from the board with respect to what had occurred? Did the board send written directives to anyone in the company with respect to what had occurred?

Mr. CHECKET. Not to my knowledge.

DECISION TO CHANGE PROCEDURE IN ITALY

Mrs. LEWIS. Then on what basis was the decision taken to change the procedure in Italy and to cease making political contributions?

Mr. CHECKET. I'm sorry, I thought the question addressed by counsel was with regard to the investigation subsequent to the Parliamentary Commission.

Mrs. LEWIS. Can you perhaps give me some idea of why it was that the decision to make political contributions was subsequently made at what level of management that decision was made and why?

Mr. CHECKET. There was no decision by management to rescind making political contributions.

Mrs. LEWIS. But they are not being made.

Mr. CHECKET. They have not been made since 1975.

Mrs. LEWIS. There must have been a decision.

Mr. CHECKET. This was a local management decision not to make any further political contributions.

Mrs. LEWIS. So it is local management deciding this with all sorts of mayhem going on around it, deciding on its own that these contributions should stop.

Mr. CHECKET. I'm not quite clear what you mean by the mayhem and other things going on.

Mrs. LEWIS. The change of Italian law. The Parliamentary Commission, the tribunals all over Italy, for example.

Mr. CHECKET. This did not have anything that you characterize as mayhem. I'm not certain there is a relationship between cessation of political contributions and the situation as you describe it.

Mrs. LEWIS. No connection?

Mr. CHECKET. I'm not aware of any direct connection in the manner that you have described.

Senator CLARK [presiding]. At this point I would like to put an additional document from the Office of General Counsel of Mobil in the record.

[The information referred to follows:]

MOBIL OIL CORP.,
OFFICE OF GENERAL COUNSEL,
July 14, 1975.

[Dictated by telephone]

DOCUMENTATION OF MOI POLITICAL CONTRIBUTIONS IN ITALY

You have asked me to describe the documentation received by Mobil Oil Italiana to evidence its contributions to political parties, reconfirming this aspect of my earlier verbal reports to you of the on-the-spot investigation conducted in Italy at various times since early 1974. As you know, this investigation included my personal review of pertinent documents in Rome.

As previously reported, the aggregate contributions made by MOI to national political parties during the four years 1970 through 1973 amounted to \$1,934,000. These contributions were to the Socialist Party, the Christian Democrat Party and the Social Democrat Party.

In the case of each such contribution, a written invoice or receipt was received by MOI, issued by one of the following listed party entities which was designated to receive the contribution and issue such documentation:

Socialist Party—Mondo Operaio (official monthly magazine of the Socialist Party); Studio 70 SRL (publishing/advertising company of the Socialist Party); and Avanti (official newspaper of the Socialist Party).

Christian Democrat Party—Publi Prop SPA (press and public relations agency of the Christian Democrat Party).

Social Democrat Party—Umanita (official newspaper of the Social Democrat Party).

In addition to the above contributions to national political parties, there were the following during the same four-year period as to which the documentation was as indicated:

(1) A contribution of \$163,000 was directed by MOI to the Compagnia Region Coalition Parties. This item was documented by a receipt from Sud Express, designated by the regional representative of the Socialist Party as the press agency of the Compagnia Region Coalition Parties.

(2) MOI deposited \$33,000 to the Italcasse bank account of the Unione Petrolifera, to pay interest costs incurred by Unione Petrolifera on a bank loan for the purpose of making political contributions to the parties through ENEL (discussed below). This amount was not a direct political contribution by MOI, but we have included it in the total since it was, effectively, an MOI cost directly related to such contributions. This item is documented by MOI's normal bank account records.

(3) MOI deposited \$5,000 to the bank account of Shell Italiana, in response to revised recommendations from Unione Petrolifera as to the respective amounts that Shell and MOI should contribute to the political parties. Again, the documentation is MOI's normal bank account records. No doubt has been raised that

this amount had been contributed by Shell to one of the established political parties.

One contribution (included in the above totals of contributions to national political parties) deserves special comment, and that is the so-called ENEL matter which has received much confusing treatment in the press. It appears that sometime prior to April 1972, the president of the Unione Petrolifera committed the trade association to contribute a substantial amount to the political parties by remitting sums through ENEL, the state-owned electricity authority. (So far as we have been able to determine—and contrary to press reports—these amounts were not retained by ENEL but, rather, were transmitted on to the parties.) This action was taken by the Unione Petrolifera president without any prior concurrence by or advice to MOI. In April or May 1972, MOI was requested to deposit funds to the account of Unione Petrolifera, to enable it to repay a bank loan which had been incurred by the trade association to make the political contributions through ENEL. Rather than allow the trade association to default on that loan and go bankrupt, MOI deposited to the bank account of Unione Petrolifera an amount of \$96,000. MOI was advised that this amount had been remitted by the Unione Petrolifera through ENEL as a political party contribution, and as documentation MOI received a written receipt from Publ Prop, a designated entity of the Christian Democrat Party (described above).

Each of the invoices and receipts received by MOI attracted a tax known in Italy as the "IGE Tax", in the amount of 4% of the contribution evidenced thereby, which was duly remitted by MOI.

In summary, my review of the pertinent documents confirms that a written invoice/receipt was received by MOI for each and every contribution, from a designated entity of a recognized political party, except only the relatively small amounts of \$33,000 (Unione Petrolifera interest cost contribution) and \$5,000 (Shell adjustment) mentioned above.

W. R. SHEPARD.

Senator CLARK. If there are no further questions.

Mr. BIRRELL. May I—

Senator CLARK. Yes.

Mr. BIRRELL [continuing]. address myself to that. I'm not sure to which document you are referring. But if it's to a document which is dated this week from Walter Shepard, it was my understanding that we had an agreement that that would not be released until he had been able to verify its accuracy.

Senator CLARK. If there is some question about it, it won't go in the record at this point.

Mr. BLUM. To be precisely clear, the explanation given to us was dictated by telephone from London. We are awaiting confirmation from London so the precise accuracy of that is correct.

Mr. BIRRELL. That is correct.

Mr. BLUM. And you will inform us as soon as possible.

Mr. BIRRELL. That is right.

Mr. BLUM. About the accuracy of that.

Mr. BIRRELL. Yes, sir. It's my understanding, Senator, that the press already has the document. I respectfully request that an attempt be made to retrieve it.

Senator CLARK. The press will be so advised.

The hearing is adjourned.

[Whereupon, at 12:50 p.m., the subcommittee recessed subject to the call of the Chair.]

POLITICAL CONTRIBUTIONS TO FOREIGN GOVERNMENTS

Lockheed Corp.

FRIDAY, SEPTEMBER 12, 1975

UNITED STATES SENATE,
SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 4221, Dirksen Senate Office Building. Senator Frank Church (chairman of the subcommittee) presiding.

Present: Senators Church, Case, Percy, and Biden.

Senator CHURCH. The hearing will please come to order.

OPENING STATEMENT OF SENATOR CHURCH

The Subcommittee on Multinational Corporations is today continuing its public inquiry into the corporate practice of promoting sales abroad by funneling money to foreign government officials through large agents' fees or direct political contributions.

As was the case with Northrop, today's hearing with representatives of the Lockheed Corp. will focus primarily on the sale of military aircraft. The subcommittee does have under consideration the question of whether to look into the alleged payment of bribes in connection with the sale of wide-bodied commercial planes.

But bribery and influence peddling in the sale of arms is of particular concern because of the potentially serious consequences for U.S. security interests and because the United States as the single largest arms exporter in the world has a special responsibility to try to eliminate such practices.

In conjunction with today's hearing, certain documents* which relate to Lockheed sales in Indonesia, Iran, Saudi Arabia, and the Philippines have been released to provide a representative sample of what is, by the company's own admission, a worldwide practice of paying "kickbacks" to foreign officials to promote sales.

I must say based on what the committee has heard to date not only with respect to this company but to a number of other large American companies, that the bribes and the payoffs associated with doing business abroad represent a pattern of crookedness that would make, in terms of its scope and magnitude, crookedness in politics look like a Sunday school picnic by comparison.

*See appendix, p. 933.

That ought to concern this country, the business community, and the Government; something has to be done about it.

What was merely implicit in the Northrop documents released by the subcommittee in an earlier hearing is most explicit in the Lockheed documents; that is, that foreign agents or consultants are hired not for their local expertise or their technical knowledge but for their connections in influential Government circles, and they are paid huge fees on this not for services rendered, but so that a part or most of these fees can be passed on as bribes or kickbacks to foreign officials.

Indeed, in Indonesia, Lockheed did away with the fiction of a middleman altogether and paid its agents' fees directly to a group of military officers.

As it is the purpose of this inquiry to lay bare the facts, without entailing the United States in embarrassing revelations that could undercut our foreign policy position with foreign governments, the names of foreign government officials who might be directly or indirectly implicated in these documents have been deleted.

The practices are damaging enough. Without weakening our own ties with foreign governments in connection with the pursuit of American foreign policy objections—even without these names, the documents speak for themselves and clearly expose the agent's practice for what it is.

OPENING COMMENTS OF OTHER MEMBERS OF THE SUBCOMMITTEE

I believe that other members of the committee have requested an opportunity to make a short preliminary statement. Senator Case, do you care to make an opening statement?

SENATOR CASE

Senator CASE. No, I think the matter speaks for itself. I would be happy to yield to my colleague.

Senator CHURCH. Senator Percy?

COMMENTS OF SENATOR PERCY

Senator PERCY. Mr. Chairman and Senator Case, the seriousness of these hearings, I think, was brought to my mind as I visited the two Communist countries this year on behalf of this committee, both the Soviet Union and China. We see in those societies a pretext of elimination of corruption which has an appeal to people.

We have seen it in South Vietnam where a society under a presumed democratic form of government became rotten and corrupt and fell by the way in that it was not supported by its own people. Communism has another form of corruption—it corrupts the very mind and the soul, but the pretext of getting rid of corruption which gets down to people, they have developed a technique of somehow getting this idea across, and I look upon this as one of the great challenges that the free world and the free economic system today faces.

This morning's hearings are an outgrowth of this subcommittee's previous hearings on the sales practices of the Northrop Corp. In the Northrop documents there was repeated reference to the necessity of

duplicating the sales structure of Lockheed. The documents released today by the subcommittee confirm the corrosive and corrupt nature of these practices.

While these practices cannot be condoned nor excused, there also must be some balance in how we the public view Lockheed's activities. First, respectfully, Lockheed is not the sole practitioner of these sales tactics. There have been numerous firms before this subcommittee admitting similar practices, and their testimony indicates that bribes, paybacks, and under-the-table deals are a way of life in many aspects of international business.

I must say that having dealt with a multinational corporation for many years, and dealt directly with its overseas business, I don't think we were even a nation before these practices were invented by other nations, other societies, long before we ever entered the business community, and I sometimes think we are quite amateurish at the way we go about it compared with the skill and dexterity which is used by foreign companies to gain business.

So that in bringing this out, I hope no one would be so naive to feel that this is a challenge just to American business. American business entered a business climate abroad that existed long before we got there and the practices that were established were practices that were invented by companies in countries other than the United States.

Regretfully in some instances we have gone along with it.

Second, it is clear from the documents that Lockheed in most instances was told that if it wished business there were certain realities that it must face. The documents reveal that in at least two cases, and it must be remembered that these documents are not all inclusive, legitimate concern is voiced about the ethical nature of these sales practices and in one case the management actually resisted the pressure brought upon them to engage in such practices and expressed deep concern about what effect it would have on the company if they engaged in those practices.

I think in utter fairness that fact should be brought out. Third, as many of the firms who have come before us have mentioned, the political systems and value structures of other nations are different—the whole structure, political, social, and economic, in the 138 countries or more in which they do business.

However, one statement does ring true across these hearings and that was made by the Exxon Corp. It was contained in a corporate directive and said that there was no nation in the world where honesty was not respected. In my own dealings abroad in my business career I found this to be true.

I also found overall that American business honesty is one of the great assets our country has in promoting business abroad.

Corruptive business practices may bring short-run profits, but they eventually lead to ruin because in the end success is determined by the quality of product sold and the value of the services rendered.

Many times these practices engaged in with one regime in a country get the company in bad with the next regime that follows.

I am a firm believer in private enterprise and the competitive system. By its nature the system is secretive in some respects, and patents, production techniques, manufacturing prices, new ideas, and so forth, are

all of value to a competitor. The system must have a right to privacy if it is to work.

However, when this right is abused, when it is used to hide practices that corrode the very system it is designed to protect and foster, then I deem it in the greater public good that these practices be exposed to the light of public criticism and those responsible bear the burden of public defense.

There are a number of issues in the *Lockheed* case that are especially disturbing. Lockheed is a company that lives only by the grace of Congress. It has been deemed that it is in the national interest that it survive. However, in these documents we find it trying to influence and even subvert U.S. Government military sales objectives abroad.

More disturbing is the use of U.S. embassies abroad to support its corrupt sales practices. While I have been a major advocate of State Department support for U.S. business interest abroad, this is not what I had in mind.

I would hope, Mr. Chairman, that today's hearings can cast some light on the relationship between Lockheed and U.S. Government agencies working abroad. I also think that it would be productive to have both the Department of State and the Department of Defense appear before us to explain the policies of their departments on this issue.

We as a Government can hold no double standard. The sun must shine equally on all of us.

Thank you, Mr. Chairman.

VIEW OF SENATOR CHURCH

Senator CHURCH. Thank you very much, Senator Percy. As I listened to your remarks, I could not help but think that although there are many corrupt governments in this world, there are not many heads of state that condone corruption. If it were to become known to them that whatever the practices of foreign companies might be in the way of bribes and payoffs, which after all these hearings will show, are incorporated in the cost of the sale; and thus have substantially enlarged the price of the product to the governments. If it were widely known that American companies did not engage in these operations, and did not fold millions and millions of dollars into the cost in order to pay the Government officials that might be taking the bribes, then nothing would be of greater boon to American companies. The notion that American companies must do it because foreign companies do it, seems to me to be not only morally wrong but exceedingly shortsighted.

If we accomplish nothing more in these hearings than to write legislation that makes it known to the heads of state all over the world, whatever the foreign companies may do in building up sales with their payoffs and their bribes American companies don't do it, I can't think of a greater single stimulant to sales by American companies.

VIEW OF SENATOR PERCY

Senator PERCY. I think, Mr. Chairman, the point should be made that in my own judgment a vast majority of Americans and American companies do not engage and do not have to engage in these practices.

I was in charge of international business for our company for many

years, and I publicly challenge anyone anyplace in the world in the 100 companies we dealt with to bring any single instance we had to obtain business by paying money.

We were told we had to do it in certain countries, particularly Asia. We refused to do it. Somehow we managed to struggle along and grow, and I think most of my competitors did—some of them did not—but I speak from a practical standpoint.

I don't think it is good practice. I think we can take our ground, and I hope we are all going to stand together now and I think some of the companies that appeared before us have been extraordinarily helpful in revealing the facts, then saying what the Government and what we can do to help them take a position they really wanted to, and I see evidence in these documents that Lockheed management was concerned about some of these practices and wondered whether they should really continue them and worry about what effect it would have and is having.

Senator CHURCH. Mr. Haughton, who is the chairman of the board of Lockheed Corp., Mr. William Cowden, and Mr. Ned Ridings, the sales representatives of Lockheed, are here to testify today. Would you gentlemen please stand and take the oath?

SWEARING OF WITNESSES

Do you swear that all of the testimony you will give in these proceedings will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HAUGHTON. I do.

Mr. RIDINGS. I do.

Mr. COWDEN. I do.

Senator CHURCH. Mr. Haughton, I understand you have a prepared statement you would like to read at this time and I invite you to do so.

TESTIMONY OF D. J. HAUGHTON, CHAIRMAN OF THE BOARD, THE LOCKHEED CORP., ACCOMPANIED BY WILLIAM COWDEN AND NED RIDINGS, SALES REPRESENTATIVES, LOCKHEED CORP., AND ROGER CLARK, ROGERS & WELLS, COUNSEL

Mr. HAUGHTON. Mr. Chairman and members of the subcommittee, for more than 3 months, Lockheed has been subjected to a most intensive investigation of its conduct in foreign sales, starting with this committee and the Securities and Exchange Commission. Then the inquiries were broadened to include investigations by another Senate committee, the Emergency Loan Guarantee Board, and several other Government agencies.

In connection with these inquiries, we have made numerous statements, both publicly and privately, on different occasions explaining Lockheed's position. Under these circumstances, it has been possible to obtain full coverage of our position.

Therefore, with your permission, I would like at the outset to give a summary of this position to serve as background for further discussion.

1. Unlike a number of other companies involved in these investigations, Lockheed had not contributed company money to American

political campaigns, either by laundering funds through overseas agents or otherwise.

2. It is our opinion that no material changes will be required in the financial statements which have been made periodically to our shareholders and to the SEC.

3. Contrary to a number of interpretations that have been circulated, Lockheed does not defend or condone the practice of payments to foreign officials. We only say the practice exists, and that in many countries it appeared, as a matter of business judgment, necessary in order to compete against both U.S. and foreign competitors.

4. Lockheed has urged that any new laws or regulations that may be established by Congress or the Securities and Exchange Commission be agreed upon at the earliest possible time, so that the uncertainty that now exists can be removed.

5. We also have urged that any new laws or regulations be applied uniformly and simultaneously for all American companies, including our competitors. We believe it would be unfair for Lockheed to be punished retroactively in advance of new laws and/or regulations. And when I speak of Lockheed I speak of its 60,000 employees and its 65,000 shareholders.

6. In considering possible new laws and regulations, we do not believe it is necessary, or indeed desirable, to identify the foreign officials who might have received payments in the past. To do so could cause maximum damage without any offsetting public benefit, particularly when it is so often difficult or impossible to know with any certainty whether an apparent recipient actually received the payments. We believe it is the nature of the transactions, rather than the names, that can be helpful to the Congress and the SEC in their considerations.

7. Following the passage of new laws or regulations in the United States, we believe the U.S. Government here should seek international agreements dealing with international commission payments that would apply not only to American companies, but also to foreign companies. It should be noted that more than 6 million American jobs are directly dependent on foreign sales by American companies, and those American workers and American companies deserve the opportunity to compete for foreign business on an equal basis with foreign workers and foreign companies.

Also, Mr. Chairman, I believe it will be useful to this hearing to list three actions that have occurred during this recent period:

1. Lockheed initiated a stringent policy governing the company's selection, use, and payment of international consultants, and the policy was adopted by the company's board of directors at its regular monthly meeting last Monday, September 8. Under this new policy, the only payments permitted would be those which would be deductible as business expense for U.S. or foreign laws. The effect of this policy is to ban payments to foreign officials directly or indirectly.

2. The SEC and Lockheed entered into negotiations with a view toward reaching agreement on the terms of a consent decree regarding Lockheed payments to foreign officials and foreign political organizations, and these negotiations are continuing. In the absence of new disclosure regulations or new guidelines from the SEC, which would apply to all American companies, including our competitors, simultaneously and uniformly, it is a difficult negotiation.

But we remain hopeful that an agreement can be reached that will be fair to our company, its shareholders, and its 15,000 employees whose jobs are directly dependent on foreign sales.

3. We have had discussions with the Emergency Loan Guarantee Board and have assured the Board that we will implement fully the new company policy noted previously.

I recall reading the transcript of the June 9 hearings of this subcommittee on the *Northrop* case and your own remarks, Mr. Chairman, indicating a desire to stimulate a thoughtful reexamination of this problem.

You and other members of the committee expressed the hope that new guidelines, or perhaps new legislation, might be established as a basis for reordering the present competition, including perhaps the competition from foreign as well as American companies.

Certainly this is an important and worthwhile goal, the Lockheed wants to work with this subcommittee and other Government groups toward its achievement.

Recent speeches by Government officials, such as Commissioner Loomis and Commissioner Sommers of the SEC, and articles and commentary in the media indicate that there is a considerable amount of confusion both in Government and in business circles over what laws and regulations should be established.

As I mentioned earlier, Lockheed has established its own stringent policy which is presently in effect even though laws and regulations to effectuate such a policy do not presently exist in the United States.

At the present time there is great confusion over what is legal under U.S. law and what is not, over what has to be reported in financial statements and what does not. Certainly there is a great need to have the laws and regulations clarified at the earliest possible time.

It is my hope that this can be done without causing undue harm to American companies, American workers, and American shareholders. As far as Lockheed is concerned, it is my hope that the actions of our Government in this regard, both on the part of Congress and the regulatory agencies, can be accomplished without causing the maximum amount of damage to my company.

I have noted that in some foreign countries which have adopted new procurement procedures of their own to eliminate improper payments, they do not advocate elimination of consulting firms. Such consulting firms appear to be necessary to compete successfully in many parts of the world.

When Lockheed was selling abroad in the range of \$150 million a year, the commissions seemed small and relatively insignificant when compared to the sales and profits they produced.

But when we got to the 1975 range of about \$900 million overseas sales per year, the dollar amounts, based on the same commission percentages, of course grew very large. The overseas profits and associated advance payments on these contracts provided great financial benefits to our company and its shareholders—and a great many jobs for our employees.

However, these commission payments tended in some cases to breed serious and unfortunate side effects including direct or indirect payments to foreign officials, about which the subcommittee has been advised.

As I have said, a number of countries abroad have tightened their own procurement procedures. This may have a beneficial effect in allowing all competitors an equal opportunity to compete under rules applied uniformly to all competitors.

Mr. Chairman, it is evident that many people in many nations are giving thoughtful consideration to this problem just as this subcommittee is doing. It is evident that the hearings of this subcommittee, and the public exposure to your inquiry and others have provoked a far better understanding of this problem in many areas, as well as an atmosphere—heretofore not present—for reaching international agreements that could provide important steps toward solutions of the problem.

It is an opportunity worth pursuing, and I hope very much this subcommittee and other appropriate Government organizations will do so. It certainly is worth pursuing, for several million American jobs may depend on the opportunity of American companies to compete for foreign sales on a basis that is fair and uniform throughout the world.

Finally, Mr. Chairman, I wish to conclude these remarks with a brief comment about the degree of disclosure that may be necessary for legislative or regulative purposes.

Lockheed has been widely portrayed as having stonewalled several Government organizations and as having refused to give details of its foreign commission payments, particularly those payments that are known or thought to have flowed to foreign officials.

This portrayal is not accurate, for the fact is that we have provided voluminous details about these transactions, and have described in detail the nature of the transactions.

Senator CHURCH. I might say there, as you know, this subcommittee has not accused you of stonewalling in connection with the disclosures that you have made.

Mr. HAUGHTON. Yes, sir. I appreciate that. Thank you.

We have felt from the beginning that public disclosure of the names of public officials in other countries could have a serious adverse effect on the company's foreign business, and therefore on our shareholders and employees, without having any offsetting public benefit.

It has seemed to us that it is the nature of the transactions, not the names, that is needed to pursue legislative and regulative goals.

Additionally we have been very concerned in many cases about the validity and reliability of the information about individual recipients that we have in our files. Our information is often based on hearsay and speculation, or is self-serving information from consultants to others, and thus may be unreliable or misleading.

And there are a number of cases where information simply cannot be provided or presented in a manner that accords with admissible standards of proof and fairness required in the United States.

Under these kinds of circumstances we have felt publication of that kind of information would violate all the precepts of fairness that we provide to our own citizens.

I want to express my appreciation to this subcommittee for its understanding and cooperation on this point.

And now, Mr. Chairman, I am ready for your questions.

Senator CHURCH. Thank you very much, Mr. Haughton.

LOCKHEED'S AGENT COMMISSIONS IN SAUDI ARABIA

The documents in the committee's possession, Mr. Haughton, would indicate that between 1970 and 1975, the Lockheed Corporation paid or committed \$106 million in agent commissions to obtain sales and service contracts, is that correct, in Saudi Arabia alone?

Mr. HAUGHTON. Well, I don't recognize the figure exactly, but it is about that figure, to the best of my knowledge.

Senator CHURCH. That \$106 million was funneled into Saudi Arabia alone, right?

Mr. HAUGHTON. Yes.

ROLE OF MR. KHASHOGGI

Senator CHURCH. Was your principal agent during this time, in Saudi Arabia, Mr. Adnan Khashoggi?

Mr. HAUGHTON. Yes, sir.

Senator CHURCH. And Mr. Khashoggi's corporation was known as Triad Corp., was it not?

Mr. HAUGHTON. It is now, yes, sir.

Senator CHURCH. Was Mr. Khashoggi or his corporation the principal recipient of these payments and do you know how much has been paid to Triad during this period?

Mr. HAUGHTON. Well, I think it is fair to say that all of these payments were to Mr. Khashoggi or destined for him at one time. As to the Triad part, I am a little unclear when he formed the company Triad. Before, it was by another name, but it is the same.

Senator CHURCH. One way or the—

Mr. HAUGHTON. Same individual.

Senator CHURCH. One way or the other it went to Mr. Khashoggi?

Mr. HAUGHTON. His organization.

Senator CHURCH. Now in recent interviews in the United States, Beirut, and London, Mr. Khashoggi has said that there is no need for American firms to make payoffs to government officials to obtain contracts. These documents indicate that your corporation believed that it was necessary to make such payments through Mr. Khashoggi, and I would like to know if that is because Mr. Khashoggi told your company representatives that it was necessary?

Mr. HAUGHTON. Well, in some cases, yes, sir, in some cases.

Senator CHURCH. So that you were making these payments at least in some cases, on Mr. Khashoggi's representation, it was necessary to do so in order to get the business?

Mr. HAUGHTON. Yes, sir.

PAYMENTS TO SAUDI PUBLIC OFFICIALS

Senator CHURCH. I would like to ask Mr. Cowden this question: Did Mr. Khashoggi inform you personally that if Lockheed was to obtain contracts in Saudi Arabia, public officials there in a position of influence would have to be paid off?

Mr. COWDEN. Yes, sir, he did.

Senator CHURCH. Where did this conversation take place?

Mr. COWDEN. I guess that he has told me on more than one occasion. I think he has told me on more than one occasion. I have known Mr. Khashoggi since 1968.

Senator CHURCH. Would you repeat the answer to the question?

Mr. COWDEN. The answer to the question is "Yes," he had told me on several occasions that it was necessary for him to make payments to foreign, Saudi officials, Government officials.

Senator CHURCH. And in addition to Mr. Khashoggi did you personally also have conversations with high Saudi Government officials who demanded that Khashoggi be paid off in connection with the obtaining of the contracts?

Mr. COWDEN. No, sir, I did not.

Senator CHURCH. Did you have conversations with high Saudi officials who demanded that they be paid?

Mr. COWDEN. No, sir, I did not.

Mr. LEVINSON. Mr. Houghton?

Mr. HAUGHTON. We should add that I think that there have been discussions with other representatives in our corporation, and, of course, Mr. Cowden rightly so was answering only for himself.

Senator CHURCH. But you knew of other conversations with other officials of your company in which Saudi Government people told you that in order to get the business you would have to pay them money?

Mr. HAUGHTON. Not me, but representatives.

Senator CHURCH. Other representatives of your company reported that to you?

Mr. HAUGHTON. Yes, sir, it has been reported to me.

Senator CHURCH. Do you know where such conversations took place? Did they take place in Paris, and Geneva, as you recall?

Mr. HAUGHTON. I think for sure they have taken place in Geneva, and I believe they have in Paris.

Senator CHURCH. Mr. Houghton, have you ever been in Saudi Arabia?

Mr. HAUGHTON. No.

THE SPECIAL ADJUSTMENT OF \$400,000

Senator CHURCH. At page 124 of the documents, there is a reference to a special adjustment of \$400,000. That \$400,000 represents a payoff to a high Saudi Government official, does it not?

Mr. HAUGHTON. That is our understanding, yes, sir.

Senator CHURCH. Isn't it also true, as the documents would indicate, that certain Saudi Arabian officials were not satisfied with payments through Khashoggi and demanded that they be paid off directly?

Mr. HAUGHTON. There have been cases to this effect, yes, sir.

Senator CHURCH. Did you accede to these requests for direct payments for the Saudi officials?

Mr. HAUGHTON. In some cases, yes, sir.

Senator CHURCH. Were the payments made through numbered bank accounts in Switzerland and Liechtenstein?

Mr. HAUGHTON. Yes, sir.

THE LAUVIER CORPORATION

Senator CHURCH. And is this the Lauvier Corp.?

Mr. HAUGHTON. That is one case, yes, sir.

Senator CHURCH. That was one of the channels that was used to make these payments?

Mr. HAUGHTON. Yes, sir.

Senator CHURCH. At page 151 of the documents, there is a cable which indicates that "machinery stalled for lack of grease." I take it "grease" in this context means payoffs, doesn't it?

Mr. HAUGHTON. That is the interpretation that we have given it, yes, sir.

INCREASE IN COMMISSION PAYMENTS

Senator CHURCH. Apparently in 1973, Lockheed became concerned that the Commission's payments were increasing, perhaps Senator Percy made reference to the expressions of concern that do appear in the documents.

At page 150, for instance, there is a company memo explaining why this was so and the memo refers to more players getting involved. I surmise that in this context the players means government officials who wanted also to be paid off, is that correct?

Mr. HAUGHTON. Well, I interpreted that as government officials or others that might be in the decision stream.

Senator CHURCH. And the last paragraph on page 1 states that "This contingency fund has been used by the consultant for under-the-table compensation to Saudi officials to get the contracts signed." That, of course, is why you paid it, wasn't it, to get the contracts signed?

Mr. HAUGHTON. That case covers some of it, yes, sir.

Senator CHURCH. Just to read the whole statement from the document into the record:

The increase in commission payments has been due to more players getting involved and the necessity to satisfy their requirements to get our contracts signed.

I think that speaks for itself. Nevertheless, the memo goes on to point out that you, and I quote again:

Really have no way of knowing if the so-called under-the-table compensation is ever distributed to Saudi officials or whether it stops at your own consultant's bank account.

That is such an extraordinary loose arrangement considering the amounts of money that were pouring out, flowing out, into Saudi Arabia, what accounts for a situation in which the company does not even know when the bribes are getting to the bribees or whether they are being diverted by agents of the company itself.

Isn't that an extraordinarily loose control—

Mr. HAUGHTON. Well—

Senator CHURCH [continuing]. Of such large sums of money?

Mr. HAUGHTON. It could be interpreted that way but that is a fact as I mentioned in my opening statement, and that is the reason that if we think we know we don't know for sure we have not pinned down in our public statements and disclosures and other matters precisely what may have happened because to be perfectly honest about it, in many cases we do not know.

ASSOCIATES OF MR. KHASHOGGI

Senator CHURCH. Well, all through the documents there are references to associates of Khashoggi, friends of Khashoggi, some of whom are described as being commercially unsophisticated. You use the term

in the documents who apparently shared the largess that came to Khashoggi. Do you know who these friends and associates are, you yourself?

Mr. HAUGHTON. I don't know them personally. I know that he has other people associated with him in his company, including some of his brothers, as I understand it, but I do not know who all makes up Triad and who all the shareholders are.

Senator CHURCH. Does anybody in your organization know who makes up Triad and who is sharing in, who is cutting up this pie?

Mr. HAUGHTON. I am not sure if anybody in our organization knows the full extent of the shareholders or where funds may flow from Triad.

ARAB INVESTMENTS IN THE U.S.

Senator CHURCH. That was the next question I was going to get into, because Mr. Khashoggi through this Triad organization is buying important properties in the United States, including several foreign area banks, and yet we really don't know who the partners are. It seems to me that this underscores the argument for fuller disclosure of foreign investment in the United States.

What is your own view with respect to that?

Mr. HAUGHTON. Well, I certainly think that it is proper to look at it. I would not want to pass on specifics or make a judgment without knowing the whole thing, and it is my understanding that you are looking into this matter and—

Senator CHURCH. Here is a case where over \$100 million has been funneled into one country by one corporation to grease the way for military sales contracts for the sale of military weapons. And the money is coming back and being invested in this country so that as a result of these extortionate practices American companies are really financing the purchases in the United States of Khashoggi and his associates. That is one of the ways that these bribes are coming back, being recycled as it were, and then take the form of foreign ownership of American assets.

ADDING THE BRIBES TO THE CUSTOMER'S COSTS

Mr. HAUGHTON. Mr. Chairman, if I could say this—these kickbacks as we have labeled them, they are paid by the customer in the main. This is not coming out of Lockheed's P and L or cash.

Senator CHURCH. That is right, and that is a very important point to make. You pay out \$100 million in bribes to one country alone. Then you add that as a cost in the sales, so that the price of the aircraft goes up \$100 million. Then you take a percentage, a profit percentage on the bribes, which adds still further to the price. Thus, the practice becomes a very important stimulant to inflation, doesn't it?

If you had not paid out \$100 million in bribes, you could have sold those planes for considerably less and still made a good profit?

Mr. HAUGHTON. Well, I don't think we can consider that the \$100 million as you call them, are bribes, because we do receive service from Mr. Khashoggi and his Triad organization. They are a benefit to our being able to do business in Saudi Arabia.

Senator CHURCH. They deliver the contracts?

Mr. HAUGHTON. We have said that we think that some of the money went someplace else, and we stand by that. But in defense of our arrangements with Mr. Khashoggi and Triad organization, they do help us in communicating and working with this country.

We don't just sell airplanes to this country. We are doing other work for them in this country and we are not sophisticated in doing business in many of these countries, including Saudi Arabia, and they help us not only to get the contract but help us to perform in a satisfactory manner by teaching us the customs and helping us get housing for our people and all the other things that we have to do.

We have people, quite a few of them, in Saudi Arabia and other countries.

Senator CHURCH. Well, I must say that I agree that you are not sophisticated in the ways of doing business in Saudi Arabia. I think you probably could have gotten your contracts for a lot less than \$100 million in paid out commissions. But my question was quite different from that. You have said this money or portions of it that you can't quite put your finger on because you don't know how much of it went through Khashoggi to various government officials, but you have acknowledged and certainly the documents show, that much of it was for the purpose of bribing those officials.

In any case, the total amount was \$100 million within a 5-year period by one American corporation into one foreign country and that became a cost of the sale, did it not?

Mr. HAUGHTON. It is in the cost of the sale, yes.

Senator CHURCH. A cost of the sale. And in determining your profit, your profit markup is based upon the total cost of the sale, is it not?

Mr. HAUGHTON. Well, the prices are governed and you could debate that one way or the other, Senator Church.

Senator CHURCH. My point is only this; I think it is one you will have to concede. If you add \$100 million to the cost of sale for purposes of commissions and bribes, then the price of the product goes up at least that much?

Mr. HAUGHTON. That is right. We hope we get it up that much, and we do in most cases.

Senator CHURCH. And you do in most cases. All right. I am saying that it is another factor that contributes to the inflation that is plaguing us and the high cost of military weapons.

LOCKHEED'S COMPETITION

Mr. HAUGHTON. May I make a point, here, sir? That is this: Much of this work we do in this country could be done by companies from numerous developed countries. United Kingdom could, France could, Germany could, Belgium could, Holland could, and Japan could.

Many developed countries could supply some of this work that we are doing in this country and really you are in a competitive situation, much more so than when you are supplying, let's say, a C-130.

Senator CHURCH. What I was going to say is, in connection with your sale of aircraft, isn't it true that foreign competition is really less serious than competition with American companies? What about the wide-bodied aircraft, for example? Is that available from the European market?

Mr. HAUGHTON. We have very serious competition in the wide-bodied aircraft by the French airplane. In fact all of us, all American companies, have lost two very important sales in the recent past, one to Indian Airlines, domestic Indian Airlines, and one to South African Airways and the whole field lost, everybody in the United States lost them, not just Lockheed, but my worthy competitors lost them, too.

Senator CHURCH. To your knowledge, do all of the foreign companies do the same kind of thing in making payoffs?

Mr. HAUGHTON. I don't have specifics that I can give you that I know first hand. But then in the Sunday Telegraph in London on September 7—I would like to submit this for the record.

Senator CHURCH. It will be included in the record.

[The information referred to follows:]

[The Sunday Telegraph, London, Sept. 7, 1975]

BRIBES BOOST FRENCH ARMS

(By R. H. Greenfield in Paris)

France has now overtaken Britain as the world's largest arms exporter, after America and Russia, through a sale campaign so ruthless that it has earned the French Defense Ministry the nickname "Le Ministère des Pots-de-Vin."

Roughly translated, this means the Ministry of Bribes. Deeply implicated in the whole operation is Adnan Khashoggi, the Saudi Arabian middleman and wheeler-dealer.

Last week he publicly admitted pocketing a bribe of \$250,000 (£120,000) intended by the American Northrop Corporation for the former head of the Saudi Air Force "to save his clients embarrassment."

ALL "SWEETNESS"

Through him go all the payments and "sweeteners" demanded by foreign defense officials, as well as his own personal commission of 5 to 15 per cent on successful deals.

All this is done with the full knowledge and connivance of the French Government. All foreign arms sales must be conducted through the Direction des Affaires Internationales of the Délégation Ministérielle à l'Armement.

Furthermore, M. Yvon Bourges, the French Defense Minister, has arms exports as his chief priority. M. Chirac, the Prime Minister, is believed to devote 10 per cent of his time to promoting them.

£100M. EXPORTS

As a result France last year exported arms—military aircraft, missiles, tanks, armoured vehicles and electronic equipment—worth about 6.6 billion francs (£700 million). This is some 14 per cent of her total overseas sales.

The Government plans to increase this by 15 per cent over the next five years. By 1980 arms sales could constitute about 50 per cent of all French exports.

There are reports, denied by the Defence Ministry, that a planeload of French arms arrived secretly in Kinshasa, Zaire, a week ago destined for the F.N.L.A., the anti-Communist National Front for the Liberation of Angola.

This movement is now fighting a full-scale civil war against its Marxist rivals. It has been claimed that a French military technical expert has recently returned from Angola, after visiting the battlefield to assess the movement's further arms requirements.

JETS FOR KING

French military export targets are centered on Africa and the Middle East, as well as South America. The most profitable are the oil States with their newly augmented wealth burning holes in their pockets.

The French adopt an attitude of cynical realism to the matter of greasing palms. It is the accepted practice in most Third World countries and those who hope to win lucrative contracts must not throw up their hands in moralistic horror.

Sources in Paris claim that French Customs are briefed to close their eyes to the transfer of this "black money" overseas. It is said to carry the same official clearance declaration as normal money transfers by the overseas commercial credit and guarantee commission of the Ministry of Finance.

On an official level the French Government is believed to have recently presented two Falcon jet executive aircraft to the King of Saudi Arabia, whose oil wealth finances a large part of the Arab arms programme.

This includes the Egyptians, who are planning to set up an aircraft industry which the French would dearly like to see making Mirages and Jaguars under licence.

Furthermore, the French Government often helps arms manufacturers to keep prices down. Last year, for instance, the Government is understood to have footed the bill for any price rises of more than 4 per cent caused by inflation.

Although French officialdom would hotly deny any involvement in the payment of "sweeteners" some embarrassing incidents have cropped up over the years.

About 12 years ago a number of Swiss Air Force officers were forced to resign after allegations that they had accepted bribes to recommend the purchase of Dassault aircraft.

Earlier this year, during the fight for the N.A.T.O. fighter contract dubbed the "arms sale of the century," two Dutch M.P.s claimed they had been offered large sums to support the Dassault F1-M53 against the American F-16. There was a third scandal over sales of the Crotale missile to Lebanon.

The loss of the N.A.T.O. contract has made France particularly anxious for overseas sales at almost any price.

The Government had banked on the deal to help to pay for the development of the aircraft's new engine. This is destined to power the planned French rival to the Anglo-German-Italian Multi-Role Combat Aircraft.

BIG FORTUNE

Mr. Khashoggi's part as mediator in much of this sales activity has helped to make him a rich man. He has a personal fortune estimate as £200 million, business interests in America and a villa and yacht in the French Riviera.

Himself a Saudi educated in America at Stanford, he first came to prominence in 1971, when Saudi Arabia bought 170 French AMX 30 tanks.

About 10 per cent of the proceeds is estimated to have gone in commission and payments to Mr. Khashoggi and other intermediaries. When a contract was negotiated in 1978 for a further consignment, the percentage required for commissions and *pois-de-vin* had risen to 14.5. In a deal with Abu Dhabi it is believed to have reached 15 per cent.

For his part, Mr. Khashoggi has said that intermediaries are necessary to clinch Middle Eastern deals and that he fully earns his part of the commission.

This comes out at between 5 and 15 percent of the contract, where successful. It also has to cover the cost of those negotiations which do not eventually come off. Furthermore, he has put at about £2,500,000 the annual running costs of his Luxembourg-based conglomerate Triad and such offshoots as his various Paris offices.

The sort of expenses that can be involved in setting up these deals may be judged by the fact that a Lebanese middleman has apparently been banned from France after arranging sex parties for visiting Arabs.

THE FRENCH "MINISTRY OF BRIBES"

Mr. HAUGHTON. It had a piece written by a correspondent in Paris, and the headline is "Bribes Boost French Arms" and they are talking, of course, about competition with the United States but they are also going to overtake Britain as the world's largest exporter, after America and Russia, through a sales campaign so ruthless it has earned the French Defense Ministry the nickname "Le Ministère des Pots-de-Vin."

Roughly translated this means the "Ministry of Bribes," and it says it is deeply implicated in the whole operation as middlemen and the man we have been talking about, Mr. Khashoggi, and so if it is all right with you, I would like to submit this for the record.

Senator CHURCH. Of course. I take it you are not arguing, Mr. Houghton, that because other companies do it, it is a good practice or a necessary practice, or that it ought to be continued as a practice?

IS BRIBERY NECESSARY?

Mr. HAUGHTON. I am not, no, sir, I am not arguing that it is a good practice and I am not arguing that it is a necessary practice. I am saying unless everybody plays by the same rules, if you are going to win it is necessary. It is a competitive choice you have when you decide whether to get out of the competition and lose it or compete and lose it, or whether you want to play by the same rules as your competitors.

Senator CHURCH. When you consider in the first place, you are selling arms and then when we examine the practice we uncover these evils—they are really evils—bribes and payoffs, it seems to me that through the work of this subcommittee we can lay the basis for some kind of an agreement between the arms manufacturing countries, the OECD countries, the United States, and Japan, that would bring an end to these practices.

I find it hard to believe that governments could resist an agreement of that kind if it was universal and applied to all arms manufacturing countries. That may be one of the things that we will want to explore as a result of these hearings; we recommend that in our statement and we have recommended it before.

EDICT OF THE SHAH

Yes. Just one other thing I wanted to add. Already, as a result of these revelations, the Shah of Iran himself has promulgated an edict in his own country putting an end to the commission practice on military sales. I think that that underscores the fact that if American companies stop doing this thing, and it became known to foreign governments if they dealt with American companies they were not getting prices that had been inflated by \$100 million for bribes and commissions. That this would be a tremendous boon to American companies. It might even lead their foreign competitors to give up these practices.

That is at least the lesson I read into the Shah's reaction to these disclosures brought by the hearings of this subcommittee. What do you think about it?

Mr. HAUGHTON. Well, I, of course, know about the Shah's edict that there will be no more commissions on military sales, foreign military sales, and our own Defense Department has that and we all know it and we are all abiding by it.

Now the question comes up—you may have seen in some of these documents as to whether that applies to agents doing certain work for a foreign country.

As you know, in some foreign military sales contracts there is an allowance for a fee in the price to be negotiated on foreign military sales. The policy of the United States is to allow it. I think that is right. If we pay commissions, I think it ought to be a part of the cost of sales on that particular project.

Our own Defense Department and our Government has said where it is allowable. But I understand the Shah's edict on this, yes, sir.

Senator CHURCH. I think that the connection that these practices by American companies may have with our own Government, that's the extent to which our own Government may have known of them and even fostered them, is a subject that Senator Percy wants to get into, and so I will refrain from questioning you on that subject.

NECESSITY OF INTERNATIONAL AGREEMENTS AND CODE OF CONDUCT

Senator Percy, would you like to ask those questions?

Senator PERCY. Yes, Mr. Chairman, I would like to really tie it right into, first, the question raised by Mr. Haughton on page 2 of his testimony where he says "International agreements should be made."

I would compare it to the question of pollution. This is pollution of the democratic processes and free enterprise processes of another kind. We found that we could not pass laws just in one State to prevent pollution because if we passed them in Illinois and did not in Indiana the steel companies in Indiana could still pollute Lake Michigan which washed the water up on the shores of Wisconsin and Illinois.

We had to pass national pollution laws. Then we had to get into international areas of control of pollution because of the oceans. I think this is an appropriate subject and as adviser to this special session of the U.N., I intend to ask the U.S. delegation to take the initiative in this regard, and it is a perfectly appropriate way because it is developing nations we are dealing with up there, and this is a way of exploitation that must be, I think, in a sense stopped.

U.S. JOBS AND FOREIGN SALES

I would like to ask you though, on the bottom of page 2 of your testimony, whether when you say that 6 million American jobs are directly dependent on foreign sales by American companies, and they certainly are, that these American workers and American companies deserve the equal opportunity, deserve the opportunity to compete for foreign business on an equal basis with foreign workers and foreign companies, is there any implication that all 6 million jobs in all companies dealing abroad have to engage in kickbacks and payoffs to get that business?

A large part of this is agricultural exports.

Mr. HAUGHTON. No, I would not want to indicate what the percentage of them, Senator Percy, are involved in kickbacks because I don't know.

Senator PERCY. Isn't this engaging in very, very big ticket items and that when you are back doing a more modest amount of business abroad there is not the incentive to have the kickbacks and payoffs, and it is probably not as prevalent a practice as it is in the upper echelons when the figures involved are huge, and whether you make a sale or not might make or break a company, in a sense, or interrupt its production lines.

LOCKHEED'S 1965 MEMO AND REFERENCE TO MORAL ISSUE

Now back in 1965, 10 years ago, there is an interoffice memo on page 2 of our documents that has been released, in which you and Mr. Meyers apparently discussed the problem of sale of four Jetstars to Indonesia,

and they understood the price was \$100,000 too low, and the memo indicates at 7:45 in the morning you met to discuss this and you said that you ought to hold, you felt that Mr. Meyers did that—we ought to hold to the original figure, that “the hanky panky has gone far enough.”

We discussed the various ethics of it and agreed that even though it would not be costing the company or the United States ostensibly any money, it just is not right and there is a limit somewhere to going along with this.

Now apparently the line was held there. Now my question is what happened in the intervening period over 10 years to change the standard that was established when you decided to hold the line and it was not right and the ethics were wrong?

DISCUSSIONS WITH U.S. GOVERNMENT OFFICIALS

What happened? Some companies have indicated publicly that they intend to use as their defense that the U.S. Government and officials of the United States advised them, told them this is what you had to do, you had to go along to get along and you had to conform to the practices and ethics and standards of the country in which you are doing business.

Have you ever discussed the dilemma that you set forth in the memo on page 150 of these documents and the dilemma that you were generally faced with with any U.S. Ambassador in Saudi Arabia, any official of the State Department, or any Pentagon official, and explained the dilemma you were in and asked counsel advice as to what you should do?

Mr. HAUGHTON. Well—

Senator PERCY. You or any representative of your company?

Mr. HAUGHTON. I have not personally talked to the Ambassador in Saudi Arabia, but my people have discussed matters with him. Now I don't know specifically what they discussed, but we have discussed that with him and I know that this subcommittee has had discussions with representatives of the State Department and, of course, we—

Senator PERCY. Were discussions held with the officials of the Pentagon?

Mr. HAUGHTON. Only on foreign military sales, what we call FMS sales.

Senator PERCY. On the ethics of the payoffs and kickbacks and what has to be done to get business, different discussions with the Defense Department as well as State?

Mr. HAUGHTON. With the Pentagon we had discussions more on whether or not it is an allowable item of cost than on the ethics of it, to be perfectly straight about it.

Senator PERCY. You did not even question the ethics or the morality of this? It was just an allowable cost?

Mr. HAUGHTON. We were not discussing kickbacks. We were discussing sales commissions rather than kickbacks and some people refer to them as bribes. It was in that context. We did not get into whether this part of this money went—

Senator PERCY. To your knowledge did they know that a part of the sale commissions were kickbacks, bribes, payoffs, to foreign officials?

Mr. HAUGHTON. I would not want to answer that for them because I did not specifically ask them.

Senator PERCY. From your own knowledge did you—

Mr. HAUGHTON. I think that—well, I know they know that we pay commissions, and I think our people in the Pentagon are knowledgeable enough about customs in foreign countries, certain foreign countries that they would suspect that this has had—

Senator PERCY. Could you tell the subcommittee who you did talk to in the Department of Defense or the State Department including Ambassadors, about this matter and the problem involved?

Mr. HAUGHTON. Well, my discussion—

Senator PERCY. You or any representative of your company?

Mr. HAUGHTON. Any discussions involved, myself and representatives of other companies in the aerospace business, meeting with Mr. Clements and some of his associates, Mr. William Clements, Deputy Secretary of Defense.

Now in the State Department, I don't know who has been talked to, but I know that we have had discussions.

Senator PERCY. Do you know which of your own officials actually carried on such conversations?

Mr. HAUGHTON. Not on this subject. I mean we have quite a few people that have to go to the State Department for export license and things of this kind. I don't know if we have taken this up insofar as kickbacks are concerned directly with the State Department by our own people.

I know that our counsel, Mr. Rogers, has spoken to members of the State Department about this overall problem, but I have not been there when these conversations took place.

Mr. LEVINSON. Who did he talk to in the State Department?

Mr. HAUGHTON. I don't know who all he talked to.

Senator PERCY. Can you provide that information to us from your own company representatives who held such conversations?

Mr. HAUGHTON. Yes; but I doubt if we are going to find people who have talked to them about kickbacks or bribes as such.

We may have.

[The information referred to follows:]

(SUPPLIED BY LOCKHEED CORP.)

A survey of Lockheed officials and employees likely to have had occasion to have such conversations was undertaken. This company survey has revealed, for the period prior to the recent public disclosures about Lockheed foreign payments, no conversations with representatives of the U.S. State or Defense Departments on the subject of bribes, kickbacks, or payments by Lockheed to foreign government officials. Several Lockheed representatives have had discussions with State or Defense Department officials subsequent to these public disclosures.

LOCKHEED'S "FOREIGN INTRIGUE CHANNELS"

Senator PERCY. On page 180, reference is made to foreign intrigue channels—of Lockheed. The names mentioned were Ned Ridings, Bill Cowden, and George Kalember. What positions do these men hold in your organization? What is meant by the foreign intrigue channels?

Mr. HAUGHTON. Mr. Ridings, who is on Mr. Clark's right here, is

manager of sales for the Lockheed Georgia Co. in the Mideast, and Africa, and Far East, and Mr. Cowden on the left is director of international sales for Lockheed Georgia Co., the overall international sales.

Now then if I can switch specifically—could I have that again?

Senator PERCY. I asked you these questions because it seemed to be an issue that 10 years ago you were concerned about, you had a meeting at 7:45 in the morning with your colleagues to talk about it, you agreed to take a position and hold the line.

I am trying to determine what happened in that 12-year period to cause an erosion of the policy and was it entirely an internal decision or was there some complicity with the U.S. Government and its officials who decided or advised you at least knew of the necessity of going along to get business and concurred with it and gave you some semblance that at least you had sort of official or unofficial sanction to do this?

Mr. HAUGHTON. Senator Percy, no, there has been no suggestion from the—any official of the U.S. Government that we go and do the things that we are being questioned about here today.

Senator PERCY. In other words, they never suggested that you do it or told you that you had to do it?

Mr. HAUGHTON. Not to my knowledge they did not.

THE ROLE OF FOREIGN EMBASSY OFFICIALS

Senator PERCY. Is it conceivable that Embassy officials in the various countries in which you have done overseas business are unaware of the payoffs that are described in these documents?

Mr. HAUGHTON. I think sometimes they are unaware and sometimes they may have heard by hearsay or gossip or some such, but I would not want to implicate any of them in decisions we made and the actions we took because I don't think that they were involved to that extent. I certainly don't want to involve anybody in our Government in what we have done.

I know a lot of people think we should not have done it. We thought we should do it and did it.

COMPLICITY OF U.S. GOVERNMENT OFFICIALS

Senator PERCY. You may not want to but that may be the duty of this subcommittee in our oversight responsibilities in the executive branch of our Government. It is our duty to find out whether there has been complicity in this matter—

Mr. HAUGHTON. Well, I have not had anybody—

Senator PERCY [continuing]. To determine from them what the policy of the U.S. Government actually has been during this period.

Mr. HAUGHTON. Well, I am sure they will give you the policy but I want to make it clear, if I may, sir, I don't want to implicate anybody in our Government for the things that we decided to do and did for competitive reasons and other good and sufficient reasons.

I don't want to implicate anybody in the Pentagon or State Department or any place in this Government in any branch because these things we did, we did on our own. If you call them for testimony that is up to you, of course, and I am sure they will tell you whatever their policies are.

Senator PERCY. For instance, let me be quite specific, is it possible or conceivable and to you that MAG officials in Saudi Arabia did not know of these practices?

Mr. HAUGHTON. I don't know how much they knew. I really don't.

Senator PERCY. At no time have you ever held conversations with your own officials, officers, representatives, that have discussed with you the knowledge that U.S. Government officials have had and there is no one who has ever come before this subcommittee and testified they had such a conversation with you and that you had knowledge of such a discussion?

MR. HAUGHTON'S RELUCTANCE TO IMPLICATE U.S. OFFICIALS

Mr. HAUGHTON. Well, I would not say there has never been a discussion or a mention of the fact that they may have talked to a MAG or an ambassador or somebody, but, I don't remember any specifics that would implicate that anybody was in complicity with our methods of doing business.

They no doubt know about it, the Embassies and the MAG's and other people around the world who work for our Government know that. The policy of our Government is to export, and they are insistent oftentimes and that is good. I think it would be well if they assisted even more because we need to export more.

Senator PERCY. You indicate that you do not want to implicate anyone. Why? My concern and the reason I asked the question is that I am concerned about a company whose sole survival depends upon the Federal Government and the contracts that it gets.

I voted, as you know, against the Lockheed loan. I was against it despite the fact that John Connally twisted my arm about as hard as he can twist an arm, and he is pretty good at it, and the President brought all the force and pressure he could bring to bear. I did not want to see us get so deeply involved with a company that we had to bail ourselves out, we had to keep the company going and maybe lean over backward to give them business against others who were using private financing, and is your reluctance to reveal whether or not the administration or members of the State Department or DOD at all determined the fact that you are really dependent upon them for survival of your company?

Mr. HAUGHTON. Well, we are doing a lot of things to survive, too, and some of them we are getting criticized for. But my point is, Senator Percy, I have not had anybody in our Government say you ought to go do this and this and this in a way of paying how much commission and when and to whom.

We just have not had that kind of instruction, to my knowledge.

Senator CHURCH. That is good news.

USE OF CIA INFORMATION ON INDONESIA

Senator PERCY. I would like to refer you to page 21 with respect to dealings in Indonesia. The last about 7 or 8 lines from the bottom. I will read this one sentence.

In order to try and obtain a more definite answer to this question, Ridings met with Colonel Slade, U.S. Air Force, Air Attaché, and inquired if the United States had any means of checking up and evaluating DASAAD's position with the new government.

Slade stated he could have the embassy CIA personnel check this out and would give a report back as soon as possible.

Now, I would like to make a distinction between perfectly appropriate, legitimate use of commercial attachés, personnel of the U.S. Government, for an American company to come to them and say who is it in this Government that makes decisions, who is it that can make that decision that will be favorable to us, and where should we put our emphasis?

That is quite different if the U.S. Government in any way is saying or implying that here is the person that not only can make that decision, but a bribe or kickback or payoff must go to them.

I am asking the question specifically in this case, and in other cases again, to your knowledge have there been any cases where U.S. Government has implied that they knew of this practice, and implied that in order to get the business, Lockheed had to go along with it.

Mr. HAUGHTON. Well, I don't know of any.

Senator PERCY. Do you know if any representatives of your company know of—

Mr. HAUGHTON. That is an impossible question for me to answer for you.

Senator PERCY. Could I ask the other representatives of your company that are here then if any of them have any direct knowledge whether or not anyone in the Department of Defense or the Department of State had knowledge of this practice and either through silence countenanced it or even encouraged it?

Mr. RIDINGS. No.

Senator PERCY. No knowledge whatsoever?

Mr. RIDINGS. I am satisfied that people in the Embassies in the foreign countries know when we have agents or consultants, but I have never discussed the particulars of that arrangement with anybody in the U.S. Government, MAG's, or what have you.

THE CASE OF COLONEL SLADE

Senator PERCY. I mention this because you did meet with Colonel Slade in this case. Could you tell us the circumstances and what was the purpose of that particular meeting and then describe in general terms the purpose of going to the State Department and Defense Department officials to find out what could be done to get the business, and specifically whether at any time you directly or anyone that you know of in your company discussed with them the problem involved in the ethical practices under discussion today?

Mr. RIDINGS. In this particular instance at that time I worked as a salesman covering that part of the world. Mr. Dasaad was our representative there. There had been a coup and naturally we were interested in whether we should continue our association with him or not.

I was asked by my superiors during this trip to try to get an evaluation of this and so I did. I talked to him about it, and naturally he assured me he was still an influential man or well-connected; but in search of another opinion, and since I knew Bill Slade, I thought, well, maybe he could give me an evaluation.

I asked him the question, could the Embassy do that? He could have said no, but he said, well, yes, he would have it checked out, and that was the report that I got back. Does that answer your question?

LOCKHEED'S REACTION TO BRIBERY ACTIVITIES

Senator PERCY. To an extent. I would like to ask specifically in Saudi Arabia, Iran, the chairman references the fact that there are orders by heads of state to end kickbacks and corruption. What was Lockheed's reaction to these initial activities in Saudi Arabia and Iran?

Mr. RIDINGS. To me, sir?

Senator PERCY. I would like to put it to the chief executive, then if it is necessary to have your colleagues expand on it I would appreciate it very much.

Mr. HAUGHTON. Well, we are aware of the subject, of the edicts, and negotiate these contracts on an individual basis. In Saudi Arabia, it is recognized that you do have agents and the agent we have is a recognized businessman in Saudi Arabia. I believe that in this case we have worked out with the Saudi Arabian Government and our agent and ourselves an understanding that we are complying, we are paying commissions, and on the new contracts as we negotiate them, I think everybody agrees we are complying with the regulations and laws of Saudi Arabia because we must.

Senator PERCY. I have two or three more questions I would like to ask you, but I would like to yield to Senator Case at this time.

COMMENTS OF SENATOR CASE

Senator CASE. We could go on and on in this dreary business. I don't know how many times it is necessary or advisable or desirable or useful to make you say that you engaged in these practices. You did.

Mr. HAUGHTON. That is right.

Senator CASE. In various ways. And there were various collateral aspects of it, some of them probably unlawful such as using various means of making deductions of these payments as business expenses, contrary to the income tax laws, and the use of intermediate companies including Swiss companies for these purposes.

These are all in the documents which will speak for themselves. I don't get any pleasure, and I know my colleagues don't, in this kind of exercise, beyond the feeling that it is our duty to go through with it and to burn into the public consciousness that this kind of thing has gone on.

Corruption is as old as the world and exists in the United States in politics as well as in business, but in business as well as in politics, there are places where it seems to have flourished more heavily and more recently.

I don't think there is anything I can bring out here that has not already been brought out 10 or 20 times over. There are important areas here. One is to try to develop legislation, as best we can, to make these practices less prevalent, and the other is to try and make people

so disgusted with the practices that some kind of necessary catharsis will take place within industry and within public morality.

I am sorry for people who have to make their living in this kind of operation and I am sorry for all of you. I don't like to sit here as a moralist, but unless somebody takes hold of the thing we are going to get stuck.

There was a time, Mr. Haughton, when you indicated that you were pretty well fed up with this thing. You said so, didn't you?

Mr. HAUGHTON. On a specific request for additional price in a product and additional commission; yes, I did.

Senator CASE. But then after a kind of futile effort you finally gave way to it, and the process went on as far as I read the record.

Mr. HAUGHTON. It has gone on subsequently after that; yes, that is right, and I knew about it; yes.

Senator CASE. The record is just replete with this kind of thing. Mr. McKinney of Lockheed writes a document on page 52:

The agreement must be such that it will withstand Internal Revenue scrutiny. Since funds repaid Auri could be tax deductible.

Taken in context, this suggests Lockheed illegally deducted bribes paid in Indonesia for tax purposes.

Mr. HAUGHTON. We may have. We are relooking at our income tax returns, and we will be working with the IRS on this, and, of course, there have been questions in the past about whether something was deductible or not and this will be true in this case.

LOCKHEED'S FOREIGN MILITARY SALES

Senator CASE. Another aspect of this matter. Many of Lockheed's military sales, were made through the Defense Department under the foreign military sales program. Of course under Defense Department regulations governing these sales, your company, like all U.S. companies, has to disclose all agents' fees and state that no bribes or kickbacks have been made.

Now bribes and kickbacks were paid to further foreign military sales.

Mr. HAUGHTON. So far as I know, we have complied completely with the regulations for FMS sales, Senator Case, and I know of no infraction of that and I know they audited. Whether some commission that was paid on FMS sales went to some individual, I can't be sure about that.

Senator CASE. But in any event as far as you know——

Mr. HAUGHTON. It is our intent.

Senator CASE. All agents' fees were disclosed to the Department of Defense?

Mr. HAUGHTON. Yes, sir, our intention was to comply, and I think we did comply completely, with the directives from the Defense

Department on FMS sales. If there were infractions, I don't know about it; and if there were, I am sure they would come out in an audit and it would be called to our attention.

LOCKHEED TO SUBMIT LIST OF MILITARY SALES AND AGENTS

Senator CASE. I wonder if you would give the subcommittee a list of the military sales and also the agents' fees paid in connection with that.

Mr. HAUGHTON. You want the amount of FMS sales?

Senator CASE. A list of all equipment sold by Lockheed under military sales contracts and all agents' fees paid in connection with those contracts.

Mr. HAUGHTON. Over what period?

Senator CASE. What period do you think, Mr. Levinson?

Mr. LEVINSON. Well, I think that the period 1965 to 1975.

Senator PERCY. Would that be a burdensome thing, very burdensome?

Mr. HAUGHTON. Well, it is more work, but I would not say it is very burdensome.

Mr. LEVINSON. Your own statement covered the period 1970-75. The press release of the company itself with respect to agents' fees covered 1970 to 1975.

Senator CHURCH. Let's use the same period.

Mr. HAUGHTON. That would be better if we could do that. We will get them started on 1970 through mid-1975, and we will submit that for the record. That will be the sales that went through FMS and the commissions that we paid on them and reported to the Defense Department, charged to the contracts.

Senator CASE. If you would include examiner's statements that were filed with the Defense Department to see whether they all included the statement no bribes or kickbacks have been made on them.

Mr. HAUGHTON. I don't know if there is such a statement or not. If you know, I accept your word for it.

Senator CASE. I don't know of anything. I am just asking you.

Mr. HAUGHTON. I don't know if we are required to file such a statement.

Senator CASE. The regulations do require that you have to disclose all agents' fees and that no bribes or kickbacks have been paid. I just want you to tell me whether, in an examination of these statements that were filed, they do include that statement.

Mr. HAUGHTON. We will search for that, yes, sir.

[The information referred to follows:]

(SUPPLIED BY LOCKHEED CORP.)

The following list of FMS contracts was provided by the witness. No statements concerning the presence or absence of payments to foreign government officials were filed by Lockheed in connection with any of these contracts.

LIST OF FMS CONTRACTS—SALES AND COMMISSIONS PAID (JANUARY 1, 1970 TO JUNE 30, 1975)

[In thousands of dollars]

Date of contract	Contract No.	Description of product	Country	Sales	Commission paid
Jan. 28, 1968	F04(606) 68-A-0067	Spare parts	Germany	\$717	
Do.	F04(606) 68-A-0067	do.	Italy	2,441	
Aug. 1, 1968	F04(606) 69-C-0076	do.	Various ¹	1	
July 18, 1969	F04(606) 69-A-0186	do.	Germany/Italy	4,430	
Aug. 1, 1969	F04(606) 70-C-0044	do.	Various ¹	227	
July 1, 1968	F04(606) 70-C-0045	Technical data	do.	410	
June 29, 1967	N00019-67-0057	P3B airplanes and spares	Australia/Norway	55	\$ 37
Feb. 14, 1969	F04(606) 69-A-0157	Technical data	Various ¹	43	
July 18, 1970	F04(606) 70-A-0125	Spare parts	Germany/Italy	1,455	
July 1, 1970	F04(606) 71-C-0023	Technical data	Various ¹	490	
Aug. 1, 1970	F04(606) 71-C-0022	Spare parts	do.	446	
Sept. 1, 1973	F04(606) 71-C-0021	Overhaul and repair	do.	1,965	
October 1971	F04(606) 71-A-0102	Spare parts	Germany/Italy	147	
Oct. 1, 1972	F04(606) 72-C-0185	do.	Various ¹	250	
Oct. 1, 1971	F04(606) 72-C-0184	Technical data	do.	490	
Aug. 1, 1972	F04(606) 73-C-0185	do.	do.	514	
Oct. 1, 1971	F04(606) 72-C-0107	Overhaul and repair	do.	794	
Oct. 1, 1972	F04(606) 72-A-0122	Spare parts	Germany	51	
Mar. 23, 1973	F04(606) 73-C-0324	do.	Various ¹	83	
May 10, 1973	F04(606) 73-C-0080	Overhaul and repair	do.	783	
Dec. 15, 1973	F04(606) 74-C-0142	Technical data	do.	356	
Feb. 1, 1974	F04(606) 74-C-0454	Overhaul and repair	do.	648	
Mar. 20, 1974	F04(606) 74-C-0123	Spare parts	do.	92	
Nov. 1, 1974	F04(606) 75-C-0577	Technical data	do.	315	
June 30, 1972	N00019-72-C-0019	P-3C publications	Iran	1,250	
Oct. 25, 1973	N00019-73-C-0075	P-3C airplanes and spare parts	do.	31,280	922
Oct. 13, 1974	F04(606) 75-C-0677	Spare parts	Various ¹	146	
July 12, 1972	F-05603-72-C-1313	C-130 center wing modification.	Australia/New Zealand	7,634	45
Dec. 15, 1970	F-33657-71-C-0461	C-130H (3) airplanes	Congo	10,815	
Mar. 8, 1971	F-33600-71-C-0112	Engineering technical services.	do.	448	
Mar. 11, 1971	F-33657-71-C-0823	C-130H (2) airplanes	Peace Beta	6,950	
Apr. 17, 1973	F-33657-73-C-0404	do.	do.	8,232	
July 1, 1973	F-04606-74-C-0019	F-104 maintenance and pilot training.	Germany		
July 1, 1969	F-04606-70-C-0003	do.	do.		
July 1, 1970	F-33657-71-A-0019	do.	do.	82,128	
July 1, 1971	F-04606-72-C-0004	do.	do.		
July 1, 1972	F-04606-73-C-0021	do.	do.		
Dec. 6, 1973	N-00019-74-C-0048	Electra modification	Argentina	3,970	107

¹ These contracts are contracted through the U.S. Air Force, Sacramento Air Materiel Area (SMAMA). Spare parts and technical data are supplied to SMAMA for subsequent distribution by SMAMA on an "as needed" basis to the military assistance program countries (Taiwan, Turkey, Greece, Norway, and Denmark), as well as the other (Germany, Belgium, Italy, Netherlands, Japan, and Jordan) foreign countries using Lockheed Aircraft Corp. products.

² Payment here includes commission on sales contracts executed and booked prior to 1970.

LAIAG, LOCKHEED'S SWISS SUBSIDIARY

Senator CASE. The complicated transaction, referred to on pages 96 and 97, involving discussion between officials of LAIAG, your Swiss subsidiary, about the way to use subsidiaries of the "first and second tier" for retaining Mr. Khashoggi as a marketing consultant. I just refer to it to highlight the fact that this use of several subsidiaries, I suppose dummy corporations, was one of the practices by which the payment of unusually high consultant's fees could be concealed from the purchaser and also used as tax deductions.

Those documents again. Also, of course in that case, the payments were made through the subsidiaries without the Saudi Government being informed of them, as the contract requiring an audit by Arthur Young & Co. said you were supposed to do.

Was the purpose of this maneuver to cover up the fact that commissions were being paid to Triad?

Mr. HAUGHTON. I don't think the LAIAG, that particular subsidiary, was set up to cover payments to Triad, no, sir. This company, as I

recall, was set up back about 1960, and was set up for good and sufficient business purposes that had to do with limit of liabilities in doing business in certain foreign countries and for transaction of business.

Now, if you ask us if we have used companies to channel funds, yes, we have, but not—

Senator CASE. Was that done in this case?

Mr. HAUGHTON. Well—

Senator CASE. The effect of using LAIAG in this case, not that it was set up for it—

Mr. HAUGHTON. I have not reread this memo, but LAIAG is a perfectly legitimate subsidiary that was set up for good and sufficient reasons as I mentioned back in 1960, as I recall, or about that time period.

Senator CASE. Well, would you explain the transaction involving the services and how payments were made, how these subsidiary companies came into the picture, and then we can perhaps draw our conclusions about the effect of this transaction and perhaps even deductions as to the purpose of it.

Mr. HAUGHTON. Well, I read this memo, 96 and 97 as a procedural matter.

Senator CASE. Oh, yes, this is all procedural.

DIFFERENCE BETWEEN BRIBE AND KICKBACK

Mr. HAUGHTON. Rather than having to do with payments that you talk about as being bribes, we call them kickbacks.

Senator CHURCH. What is the difference between a bribe and a kickback?

Mr. HAUGHTON. Well, I interpret a kickback as where you have something in the price, Senator Case, that you return to the buyer.

Senator CASE. I am very flattered.

Senator CHURCH. So am I.

Senator CASE. You referred to the Senator as Senator Case.

Mr. HAUGHTON. Excuse me, sir.

Senator CASE. Your apologies ought to go to Senator Church.

Mr. HAUGHTON. Well, OK, gentlemen. I will get it straight.

Senator CASE. I did not mean to interrupt this distinction between a kickback and a bribe.

Mr. HAUGHTON. A bribe to me is where you go to somebody and say I would like for you to do something for me, and I will pay you *x*. Now that is the way it comes through to me. I am not an authority on these matters.

Senator CHURCH. If you are not one, I don't know who is. [Laughter.]

Senator CASE. What is a kickback?

Either one is wrong, isn't it?

Mr. HAUGHTON. Well, I think in doing business abroad, any way up to now, you have to take into consideration the customs of the countries and the customers where you are doing business and how they do business if you want to do business with them.

Senator CHURCH. That does not make it right though, does it?

Mr. HAUGHTON. I am not saying it is right but it is—it has been a practice, Senator Church.

MR. HAUGHTON'S REACTIONS TO KICKBACKS

Senator CASE. You yourself were revolted by it, as you indicated by the words "hanky panky" I think at one time.

Mr. HAUGHTON. I think that was one of my men, but I have used—

Senator CASE. One of your what?

Mr. HAUGHTON. I think one of my men said that. I think Mr. Meyers said that, but I have said that, too. I have said the same thing.

Senator CASE. And you don't like it?

Mr. HAUGHTON. Well, I don't like it if I don't have to do it to get the business.

Senator CASE. You don't like it if you do?

Mr. HAUGHTON. No; I prefer we did not do it. I would prefer we did not think we had to do it. But you know, I think on the other hand and, of course, we are going to do our best to quit doing it; and we are not going to do it knowingly, and we have already said that. We have said that in our corporation.

Now we have kind of tied the hands of our salesmen a bit, and I don't know what is going to happen unless we get on with our legislation and our regulations, and everybody abides by the same rules.

RECOMMENDATIONS FOR TOUGHER LAWS

Now I think on the international agreement side of it, I think we ought to work very hard on that and, of course, we are not able to do that. I think that is going to have to come from our Government, Government to Government, but you can rest assured that we are already living by this new policy, which is a tough policy and it may be tougher than the laws you pass, it may be tougher than the SEC regulations.

Senator CASE. The SEC does not have anything to do with anything except disclosure.

Mr. HAUGHTON. Yes.

Senator CASE. The SEC is not a policeman in any sense of trying to establish and enforce moral conduct or proper business ethics.

The record is replete with this kind of thing, and the amounts that are involved, as the chairman has indicated, come to over \$100 million. It is an incredible situation. I don't know that there is very much purpose as far as I am concerned in going into this in more specific detail.

All these things happen. They involved dubious tax deductions for purposes which are probably illegal, and they do involve the corruption of people in positions of trust in order to get them to abuse their trust which they should show toward their own governments and to prefer for personal financial gain business arrangements with your company or others engaged in the same practice.

It is the cheapest thing in the world. I will stop with this because I don't like to sit here and make a moral statement on that kind of conduct. There was a fellow who had been convicted of cheating some of his clients. I don't know whether he was a broker or what he was. He was up for sentence and before he was sentenced the judge asked him, "Aren't you ashamed to cheat all these nice people who trusted you?"

The man said "Whom else can you cheat?" That is the basic reason I think for being disgusted with the kind of operation that it involves the subversion of people who necessarily have to put their trust in you. That is all.

Senator PERCY. Mr. Chairman, could I finish my three questions?

Senator CHURCH. Certainly. Then I have two other matters I would like to pursue and then I want to turn to Senator Biden. Senator Biden is a member of the full committee and he is most welcome this morning.

LOCKHEED'S SALES STRATEGY

Senator PERCY. Following up on Senator Case's question, Mr. Haughton, I detected a sense of hesitancy in your voice and your answer when Senator Case asked whether or not this procedure then did not somehow revolt you, and I tried in going through to find every evidence I could it did revolt you and give us as much credit as I possibly could; now I am a little concerned at your response to Senator Case, and I am concerned because in business I know that a businessman would much sooner have a negotiated deal than a competitive situation, directly negotiate it and arrange it.

COMPARISON OF NORTHROP CORPORATION AND LOCKHEED

He far prefers that than competition. We have tried to legislate far more competitive bids than was the practice in the Defense Department. There was reference made by Northrop to the Lockheed procedure in this matter.

The implication was there that Lockheed Corp. really sort of invented this concept and that they were patterning their practices after those adopted by Lockheed. You were revolted and your colleagues back in 1965.

I don't find the revulsion there, and I don't find the revulsion this morning. Did you finally conclude that this was the way to sew up this business, that Lockheed had become so adept at this it was far more experienced and competitive with respect to other American corporations that they were competing against, and that you could outdo them, you knew avenues and used procedures and methods that could sew that business up for Lockheed and keep you going?

Mr. HAUGHTON. May I speak to the allegation in the Northrop testimony and the documents?

Senator PERCY. Yes.

Mr. HAUGHTON. Because I asked our attorneys to try to find out what they were talking about, and it turned out that they used one of our contracts that we had with Deutsche Commerz, a perfectly reputable firm in West Germany, headed up by Dr. Franke-Fahle; and it had four and a half pages and they copied four of the pages identically, paragraph numbers and all, and then the part that they did not copy had to do with what it was all about, how much commissions and so forth.

To say that we have had a company like the EDC corporation, that Northrop disclosed in their Ernst & Ernst report and in their director's report, is not correct.

We have not had a comparable corporation to that; and why they wanted to copy us I don't know, but you can rest assured that they

are skillful people to do the amount of selling that they do, and I don't ordinarily like to or care to comment if somebody refers to me and says why don't you do it like Lockheed, but in this case in this EDC Corp., they did not copy that.

Senator PERCY. I did not think when he said it to us you would be complimented.

Mr. HAUGHTON. The organization, as I recall from the business we did with them on both commercial and military sales we paid them approximately 1.6 percent of sales.

Senator CHURCH. I don't mean to cut you off. I might say the subcommittee is looking into that particular matter and when we get all of the particulars we may want to come back and make it the subject of another hearing if that seems to be necessary.

At the moment we don't have all the facts.

LOCKHEED AND INDONESIA

Senator PERCY. Specifically, on page 95 of our documents, I would like to ask both you and Mr. Cowden to comment on a document now 4 years after the moral statement was taken, and moral position taken, in Indonesia. Now we are up to November 25, 1969. The memorandum from Mr. Davidson to Mr. Cowden indicated that a decree by the Saudi Arabian Council of Ministers requires a clause in all contracts specifying no agents have been paid to secure the sale of the equipment in question.

Skipping to the next paragraph "it is my understanding that LAS" which stands for Lockheed Aircraft Services—is that correct?

Mr. COWDEN. That is correct.

Senator PERCY. Lockheed has accepted this as a necessary part of doing business in Saudi Arabia. They have signed and are now negotiating to sign contracts with such a statement included but with full intention of paying our representative his usual fee.

-Skipping down, "it is my recommendation that our initial contracts submittal be patterned after GLX 160 and not include such a clause."

"Should it become necessary during negotiation to include this clause I recommend we do and adopt the same position as now used by LAS and LIA."

In other words, include it but pay no attention to it. Why was that position taken? Is this because you felt that the decree issued by the Council of Ministers, which was Dasaad, was not really intended or did you feel the pressure so great to get business that you simply despite the decree, had to go around it and intend to continue your usual practice?

Mr. COWDEN. I don't think we took this position as a corporation, period, that Mr. Davidson refers to in this memorandum. I think he was stating what he thought at the time and my recollection of, and I have no idea personally what LAS did or did not do in this contractual arrangement—but my recollection of the way that matter was handled was that we told our consultant that we could not obviously live with that kind of—our understanding of what the original clause was. Our consultant is a recognized consultant of ours and businessman. He negotiated and we negotiated with government officials, and the clause was changed enough and recognized enough so it could accommodate our relationships with—

LOCKHEED'S CONVERSATIONS WITH U.S. GOVERNMENT

Senator PERCY. Finally, on the relationship with the Government, have you had, Mr. Haughton, conversations with members of the U.S. Government that any time indicated to you the great balance of payments problem this country had, the need for us to close that gap through military sales, be in contact with a very aggressive Department of Defense whose business it was to sell arms all over the world and somehow implicated or indicated to you that that was in the national interest for you to go out and get more business and keep going and keep American sales going and that this would help the national interest a great deal; and second, was the implication at any time given to you to get that business you had to engage in practices that were known as common practices in the countries in which you did business?

Mr. HAUGHTON. I, of course, have heard from people in our Government about the need for exports. We read. We hear. But I have not had anybody in our Government say I had to use any particular sales practice in order to export, in order to get business abroad.

MR. HAUGHTON'S KNOWLEDGE OF PAYMENTS

And while I am speaking, Senator Percy, if I may, I think I ought to make one thing clear. When I refused to let the fellows put another \$100,000 on the fourth jet star for Indonesia, that airplane already had some commissions in it, and I thought it was enough.

I don't want to lead you or the subcommittee or anybody to an indication that I was through being a party to paying commissions, some of which might go to Government officials, back at that time.

I don't want to fly under false colors, and I appreciate you talking about that particular one; but I don't want to indicate that some of these other things that went on subsequent to that time I didn't know about, because though I didn't know every detail, I knew many of them, and I could have known them all.

So I want to make my position clear so that it does not seem I am not being absolutely honest.

Senator PERCY. That is very candid and honest and probably lends more credence to the fact that this procedure that has been adopted does go back farther than I thought it did.

THE SALE OF THE L-1011

It does have relation to the 1011 and an anticompetitive position you found yourself in and the necessity for Government loans when your competitors were privately financed.

Was it necessary for you to make payments to permit commissions to be large enough so that it would involve kickbacks or payoffs in order to move your widebodied aircraft against competition in this country?

Mr. HAUGHTON. Well, we have paid commissions, high commissions on the sale of 1011 aircraft, and there is no doubt about that and we have won some and we have lost some to our fellow competitors in this country, and we have lost some to foreign competitors, but to answer your question, yes; we have.

Senator PERCY. To your knowledge, have you ever lost business on the L-1011 because some other competitor was willing to pay more in a commission, bribe, kickback, or whatever you might want to call it, than you were?

Mr. HAUGHTON. I couldn't prove that, and I think all of us in this country have lost some because of the assistance given to our competitors abroad by their governments in the sale of other services and goods and military products where we are unable to sell certain countries.

Senator PERCY. Thank you very much indeed, and thank you again for your candor.

Mr. HAUGHTON. Thank you, sir.

Senator CHURCH. Senator Case has said he has another question he would like to put, and I have two subjects to bring up.

LOCKHEED AND INDONESIA

Senator CASE. These are two matters I would like to get into the record. They don't relate directly to the payment of bribes just for the sake of getting business, but they have other implications. I refer you to Document 45, subject, Indonesia in 1971.

Mr. McKinney wrote to Mr. Cowden, of your company, to tell how in 1971, the company arranged to become supplier of the Indonesian Air Force for the amount of \$800,000, which Mr. McKinney said he learned was going to be spent by the Pentagon in the military sales program that year, and it appears that a \$100,000 commission was paid for persuading the Indonesia military to shunt that American military sales program item to Lockheed.

I wish you would give me your understanding about that.

Mr. HAUGHTON. Well, I do not know the details of this. I will ask my two associates here.

Senator CASE. I would be very glad to have any explanation of what seems to be quite clear from the paper record of this transaction.

This is more than just paying a bribe, this is paying a bribe to get American dollars. I won't hold the committee any longer on this point. I would like to have any explanation in writing.

Senator CHURCH. Could you submit that response in writing?

Mr. HAUGHTON. Yes, sir.

[The information referred to follows:]

(SUPPLIED BY LOCKHEED CORP.)

The following written response was received on behalf of the witness:

The document comprising pp. 45-47 is a sales representative's report on a visit to the Indonesian Air Force (AURI) headquarters for the purpose of discussing a number of business proposals for modification and repair work as well as for the sale of new airplanes.

Although mention is made of the U.S. Defense Liaison Group having \$800,000 to support the entire Indonesian Air Force during 1971, it is not Lockheed's understanding that these funds were available for the military sales program as such. It was Lockheed's understanding that these funds were available for such support in whatever manner was determined but by the appropriate U.S. authorities, including funding of direct contracts with suppliers.

The \$100,000 commission mentioned in this document had been paid in connection with prior sales and had no direct bearing on securing any of the business related to the \$800,000 figure mentioned earlier in the referenced memorandum.

SALES TO SYRIA

Senator CASE. Then the other matter that is very troublesome to me is the suggestion, again I think not related directly to the matter of bribes, but showing up in the matters that we have here, namely, the use of various cover transactions in order to avoid American embargoes on the sale of military equipment to certain countries. On page 5 of the documents a memo from Marion Vandiver, is reproduced, and this matter is very clearly brought out. And the idea is illustrated again on page 121, where there is a cable laying out a proposal to furnish airplanes to Syria in spite of an American embargo, and the quotation here is "if we receive requests from Syria, we will respond with a price and availability but there is considerable question as to U.S. Government issuing export licenses for C-130 to Syria at this time." That is January of 1975. If Saudi Arabia purchased and later transferred this to Syria, then it would be their responsibility to comply with the third party resale stipulations for the export license." This seems to be clearly an attempt by the company to use Saudi Arabia to avoid an embargo by the U.S. Government against the sale of airplanes to Syria. I would be glad to have you answer that for the record, if you will, and explain it, because it seems to me a very serious violation of existing law and requirements and I think to a degree of American security.

Mr. HAUGHTON. Well, speaking to your question on page 5, I don't think anything ever came of that. I know that ideas come from the field about—

Senator CASE. Will you find out for the record and find out whether anything did come of that and make any comments you want?

Mr. HAUGHTON. Yes, sir.

[The information referred to follows:]

(SUPPLIED BY LOCKHEED CORP.)

With respect to both the document concerning Indonesia at page 5 and the document concerning Saudi Arabia and Syria on page 121, the answer to Senator Case's question is that neither transaction actually occurred.

Senator CASE. The same is true of the last point I raised.

Senator CHURCH. I have some questions I would like to ask of Mr. Cowden.

LOCKHEED SALES OF THE C-130

Senator CHURCH. You are the chief salesman of the Lockheed (Georgia) Co.; is that correct?

Mr. COWDEN. For the international part; yes, sir.

Senator CHURCH. And in that capacity you are responsible for sales of the C-130, are you not, the Lockheed cargo plane?

Mr. COWDEN. Yes; to the international—

Senator CHURCH. For the international market?

Mr. COWDEN. Yes, sir.

Senator CHURCH. Now, in an earlier statement this morning, Mr. Haughton has said that the company, Lockheed, was forced to pay agent commissions and kickbacks because of the competition both from foreign aircraft companies and from other American companies.

FOREIGN COMPETITION WITH THE C-130

What airplane competes with the C-130? Isn't it true there is no direct competitive aircraft?

Mr. COWDEN. At the present time except for the Russian AN-12, there is not an airplane in production that we feel competes directly. However, there has been the Transall 160, which is jointly built by France and Germany, which was a direct competitor.

Senator CHURCH. Is it true almost none of those were sold?

Mr. COWDEN. That is correct.

Senator CHURCH. Not only in your own perception but in the perception of the market this particular aircraft had no sizable competition; isn't that fair to say?

Mr. COWDEN. That is fair to say.

Senator CHURCH. All right.

Well, then, why pay an agent a commission or kickback for selling a C-130?

Mr. COWDEN. As Mr. Haughton said, we pay agents for a lot of reasons, for the services that they can render us in a country, the assistance that—

Senator CHURCH. You don't pay this kind of money for that kind of service. You don't pay \$15 per head for every Saudi Arabian because of the services they can render in showing you directions on the streets or introducing you to certain people they may have been acquainted with. We know what this is all about. And my question is, why do you even pay commissions or kickbacks or bribes when you don't even have a competitor for this plane?

COMPETITION BETWEEN AIRPLANES AND OTHERS ITEMS

Mr. COWDEN. Because we are frequently competing, not necessarily with another airplane just like ours, but we are competing for the sales dollars that would be spent on something else.

Senator CHURCH. Such as?

Mr. COWDEN. Such as fighter airplanes, such as tanks, such as guns.

Senator CHURCH. That is an extraordinary argument. Such as Kellogg Corn Flakes. I mean, what you are really saying there is if we don't get their dollars, they might spend them for something unrelated to aircraft. It is not the competition for aircraft that is involved because you have conceded that aircraft, they either want it or they don't, but simply because if you don't pay commissions they might buy food or they might buy something unrelated to aircraft.

You see, this is where the whole practice becomes so venal. If you base your sales on payoffs to government officials, and make them rich, then you force these governments in the direction of military sales purchases when other purchases might be far more beneficial to them and to their people.

You cannot come here and argue that even though the C-130 had no competition, they might have bought something else if you didn't engage in the payoffs.

Senator PERCY. I am reminded of the comparison with Cook County which will be one solid sheet of concrete if we keep paying it over this way. I suspect that there is a relationship between desire of public

officials to keep paving and the kickbacks that contractors frequently are noted for giving, and this practice has been taken in this country as well I would imagine and it is not unusual that in foreign countries the decision to buy this aircraft would be made even if they do not need it because they know it is the quickest way to get a payback.

Senator CHURCH. The quickest way to get rich.

Here I want to read from a memo to illustrate this point. It is a memo from Cederberg to Mr. Crockett and it is on page 35 of the documents. It says:

I reviewed with Ned the C-130B proposition to Indonesia which Joe Morris and I discussed with you Tuesday afternoon. Ned felt that it contained all of the elements that would appeal to them although increasing the C-130B price to \$1.8 million might need some explanation. He thinks that our offer of \$650,000 for the Jet Star might be accepted in light of the commission.

When he was in Djakarta last week, Ned asked if he understood the amount of commission paid could affect the price in the sale and he laughed and said he understood that very well. That is the Indonesian official speaking.

STOPPING CORRUPTION

It seems to me to lay it out very plainly that when you pass fat wads of money to these foreign officials, you greatly influence whether they are going to buy an airplane or whether they are going to import some wheat, and so the process affects even the decisions of the foreign government with respect to their commodity purchases, and then when you add the cost of the sale, and when you pay commissions based upon the size of the sale, what you are really doing is working out a system where the bigger the payoff, the bigger the kickback, or the bigger the bribe, then the bigger the profit for the company, and the greater the diversion of resources from poor countries to the purchase of this kind of stuff.

Now, that system somehow has got to be corrected or you will never get the corruption out of it; and if anybody doesn't believe that is important to the survival of the free enterprise system, they ought to look at the result of the latest Italian election where the Communists made startling gains because of the common perception that the Communist Party was the only one that wasn't involved in gigantic ripoffs.

It has got to stop and we have to find a way to stop it. We have to find it together. You have to not only come forward with recommendations as to how this can be stopped, but we have to work out a comprehensive program for stopping it. That may require legislation. It may require further disclosure procedures by SEC. It may require international protocols. But we have got to do it.

Now, I have just a few questions about Indonesia, then I will ask Senator Biden to ask whatever questions he may have in mind.

THE DASAAD FAMILY

As I read the documents on Indonesia, you had an agent there, you had the Dasaad family as agents during the Sukarno regime. When Sukarno was displaced by Suharto, the question came up as to whether the Dasaad family had any influence with the new government, and whether he should be dropped. As I understand the document, the Dasaad family was dropped. Then on May 14, 1971, in a memo from Dobbins to Mitchell regarding a conversation about a

high-ranking officer in the Indonesian Air Force, having to do with agent fees, I read the following:

X and one of his deputies are well aware that we paid commissions to our consultant. They stated that since the consultant is no longer in the picture, they expect commissions to be paid directly to a numbered bank account in Singapore which they say is a support fund.

Mr. LEVINSON. Page 48 of the documents.

Senator CHURCH. Page 48 of the documents.

That was known, wasn't it, as the Widows and Orphans Fund, and are Singapore bank accounts kind of like Swiss bank accounts in Europe?

Mr. HAUGHTON. I don't know.

Senator CHURCH. You don't?

Mr. HAUGHTON. No.

Senator CHURCH. I am told they are.

THE INDONESIAN AIR FORCE

Reading on from the memorandum, and further from an earlier February 18, 1970 memorandum, from Mr. Ridings to Mr. Johnston, about the contingent liability fund for the Indonesian Air Force—page 38 of your documents, I read the following:

"As a necessary part of doing business with the AURI"—is that the Indonesian Air Force—

Mr. HAUGHTON. Yes, sir.

Senator CHURCH [continuing]. "We had to sign an agreement to repay 5 percent of it to the amount of contract GLX 199 or \$15,000 to the AURI.

"I want to advise further that this will be a way of life in any future business dealings with the Indonesian Air Force."

So now you have eliminated the agent and you are paying directly, are you not, to the Air Force itself?

Mr. HAUGHTON. That is what happened there, yes.

THE WIDOWS AND ORPHANS' FUND

Senator CHURCH. Can you tell us something about the nature of the widows and orphans fund? Do you know anything about it—except that that was what is was called?

Mr. HAUGHTON. Well, Senator, I have inquired about that, but I have to tell you I don't have a satisfactory explanation as to what this organization is.

Senator CHURCH. Can you tell us how much money went to that organization, that you don't know about?

Mr. HAUGHTON. I don't know how much.

U.S. AID PROGRAMS

Senator CHURCH. Do you know the U.S. Government is involved in an aid program to Indonesia with public money, our own money, that amounts to hundreds of millions of dollars?

Mr. HAUGHTON. I know we have had aid programs there.

DISCUSSIONS WITH THE AMERICAN AMBASSADOR

Senator CHURCH. Did you ever take this matter of directly paying what you call a kickback, I guess, to the Indonesia Air Force with the American Ambassador in Djakarta?

Mr. HAUGHTON. Not to my knowledge.

Senator CHURCH. Did any other member of the company ever think to bring it up with the American Ambassador? Have any of these practices involving payoffs or kickbacks or bribes, which we have been discussing this morning reported to your board of directors? Were they reported prior to the investigation that led to this hearing?

Mr. HAUGHTON. No, the first time that these were reported to the whole board of directors was June 23rd of this year.

Senator CHURCH. That was after our Northrop hearings in this subcommittee, was it not?

Mr. HAUGHTON. I believe that is right.

Senator CHURCH. That is part of the same pattern about which I have remarked before, that large American companies engaging in these practices refrain from advising the board of directors, which is usually the last to know, rather like the Congress.

Senator PERCY. Mr. Chairman.

USE OF CONSULTANTS

Senator PERCY. Referencing your picturesque language, I have just one question involving language used on pages 88, 89, 90, and 91; and I read right from the top of page 89.

"It is quite apparent that consultants"—but the word is crossed out—"past and current performance in keeping"—sanitized, deleted, expletive—its name—"Happy remains effective, remembering that blank is one of the key people we must satisfy with not only what we do but also with how we do it," et cetera.

What was the code name Locust used for, and why was this document sanitized to change "Locust" all throughout the document to the word "consultant?" Was that Locust a code name that was used for your consultants before and how did you happen to use the word "Locust?" What is the implication?

Mr. HAUGHTON. I don't know; do you?

Senator PERCY. This memorandum was to Mr. Cowden. Maybe he can answer.

Mr. COWDEN. I think that the answer is yes, that is a code word for a consultant, and they are selected by a computer, as a matter of fact.

Senator CHURCH. The code words are selected by a computer?

Mr. COWDEN. That is right.

Senator CHURCH. That is amazing.

Senator PERCY. It is amazing. I don't know if IBM is wrong when they have this code word "think"—maybe a computer can think, and it came up with the right word.

Senator CHURCH. Even the computer had a conscience.

Senator Biden.

Senator BIDEN. Thank you very much. I truly appreciate the opportunity to sit in on this hearing, although I am not a member of this subcommittee.

Senator CHURCH. You not only have that opportunity, but I am now going to turn the remainder of the hearing over to you as the ranking Democrat because I have to leave at this point.

Mr. HAUGHTON. May I make just a short statement before you leave, sir?

Senator CHURCH. Yes.

MR. HAUGHTON'S RESTATEMENT OF LOCKHEED POSITION

Mr. HAUGHTON. I thought because of my discussion with Senator Percy and others here today, that I would like to reread paragraph 8 at the bottom of my statement on the first page that says:

Contrary to a number of interpretations that have been circulated, Lockheed does not defend or condone the practice of payments to foreign officials. We only say the practice exists and that in many countries it appeared as a matter of business judgment necessary in order to compete against both U.S. and foreign competitors.

I want to be sure our statement is on the record.

Senator CHURCH. I think you have made the point and emphasized it in the course of the discussions this morning.

Senator Biden.

QUESTIONS OF SENATOR BIDEN

Senator BIDEN [presiding]. Thank you.

These hearings are really fascinating. You are one of the most fascinating men I have listened to. Your concept of morality is very intriguing to me. The chairman has said we have got to search for a way out of this. I am not sure I want to look with you for a way out, to be perfectly blunt about it.

CONCEPT OF MORALITY

When you explained a little bit earlier about how in fact you thought this thing should be played, it reminded me of the rationale used over the last couple of years by some of our friends involved in politics. In short, if my opponent is stuffing the ballot box, then I had better damn well stuff the ballot box. That is the American way. That is the way we have to do it. If it interferes with what the law says, and what our concept of morality is supposed to be, well, that is just the price of doing business.

I am in business; I am a politician; I am in the business of getting elected, so I would assume you would condone my stuffing the ballot box because my competitor is stuffing the ballot box.

Mr. HAUGHTON. No, sir.

Senator BIDEN. Then I would be curious to know why not?

Mr. HAUGHTON. In the first place, it is against the laws of the United States.

Senator BIDEN. That hasn't stopped you.

Mr. HAUGHTON. I haven't stuffed any ballot boxes.

Senator BIDEN. You have done a hell of a lot worse than stuff a ballot box. In my mind, you may have corrupted the system completely, to the point of having people making gains in other countries.

who reflect your point of view, who do more than we could ever do in our whole policy of containment of communism. You have a situation in Italy, pointed out time and again, where Italians aren't embracing the Communist Party because of the fact the Communist Party represents a point of view they reflect. They are embracing the Communist Party because other parties have been shown to be so replete with corruption they have no place else to turn.

I am curious. I would like to hear what you didn't do. You told us what you did do. I would like to find out whether or not you in fact think that there is any way—well, maybe I should drop this whole thing.

Mr. HAUGHTON. I think our statement, Senator—I think our statement is clear on our position on this whole subject.

Senator BIDEN. I guess that comes from lack of experience. Your statement is clear, and what you say confuses the clarity of your statement in my mind. I end up not knowing what you are saying.

I will try to be specific and short.

No. 1. I can understand your saying that in order to compete, in the interest of your company and in the interest of America, because we need exports—you, in fact, had to engage in practices that you may not have liked, and if anything, all you were doing was adding to the price of aircraft and the cost of the aircraft.

POSSIBLE VIOLATIONS OF TAX LAWS

The ranking Republican didn't go into this in very much detail, but the documents are replete with the question of how you handled these dealings in other countries vis-a-vis our domestic tax structure. I wonder how you handled and decided to treat your dealings abroad. It takes on a whole other question, it seems to me.

If, in fact, you are violating the law, you are directly cheating the American taxpayer. If, in fact, it is a violation of the law, it means less tax revenue to maintain the same service.

My father pays more in taxes because people like your company don't comply with the law. So you are flat out—if it can be proved that you did violate the tax laws of America—directly cheating the American Government.

It seems to me that if you say we have got to compete over there, and that the only way we can do it is to pay off Charlie or we have to kick back to Charlie, that is one thing. It is a completely separate issue when you take that action you didn't want to engage in and try to use it to your financial advantage domestically, which in fact impacts upon the tax structure of this country.

I think that is an important distinction to be made, assuming that you in fact did violate the tax law of the United States.

It is clear from the statement that was read that you sure were going to try all you could to find a manner and means by which you could treat this payment process. You had a broad power tax advantage domestically. You were conscious of that. Your attorneys were conscious of that. Your representatives were conscious of that. You evidenced that in a memorandum. It seems to me that is a completely different picture. I do not know how that comports with your concept of moral dealings.

Mr. HAUGHTON. I want us to pay all the taxes to the United States, both from a personal standpoint and a corporation standpoint, that we are supposed to pay under the laws of the United States, and we are re-reviewing all of our tax submittals for several years. It will not affect the amount of payment in the year term because due to our severe losses, we haven't been paying tax, but on the other hand, the tax reports must be correct; and they must be complete, and we want to get them in that position if they are not already.

Senator BIDEN. I will try to ask short specific questions.

SALES PRACTICES OF THE SOVIET UNION

No. 1. Do you know whether or not, or do any of your representatives at the table know whether or not when the Soviet Union sells arms, they engage in the type of practice you do abroad?

Mr. HAUGHTON. I don't know their sales practices. I just don't know.

Senator BIDEN. Do either of you gentlemen know?

Mr. COWDEN. No.

Mr. RIDINGS. No.

SALES PRACTICES OF OTHER COUNTRIES

Senator BIDEN. Do you know the sales practices of any of your competitors, whether they are French, the European consortium, or the Dutch?

Do you know whether they engage in this kind of practice?

I would like to go down the line and work our way around.

Mr. HAUGHTON. This article we inserted in the record, I don't know if you were here, this was in the Sunday Telegraph in London, September 7, written by Mr. Greenfield.

"In Paris, bribes boost French arms." That is an indication at least that they do this and—

Senator BIDEN. Well, I will try to clarify the question. Before you all read that article, were any of you aware of the fact that any of your foreign competitors, whether they be French, Dutch, or otherwise, were competing in the same manner in which you were? That is, were they offering kickbacks, or whatever term you want to use, for money on top?

Mr. RIDINGS. I do not know the details of their arrangements but most major manufacturers, be they European, American, or what, are represented overseas by consultants or agents.

Senator BIDEN. Is the Soviet Union represented overseas in the same way?

Mr. RIDINGS. I don't know about the Soviet Union, details of their business transaction. I don't know.

Mr. COWDEN. I don't know.

Senator BIDEN. You all didn't know, yet, you felt it was necessary for competition?

Mr. HAUGHTON. I think this article about the French is right clear and—

Senator BIDEN. But it is after the fact.

I am talking about for the past 10 years, you have been engaging in these practices.

Mr. HAUGHTON. I think we had a case in India, I don't think there is any doubt about it; but if you ask me to go prove it, I cannot prove it.

Senator BIDEN. Let me see if I understand the rationale. I guess I just am a little slow.

THE NEED TO BE COMPETITIVE

You say the reason for engaging in these practices is to stay competitive. You needed to do it in order to be competitive, is that correct? That is your basic premise?

Mr. HAUGHTON. You have to do it to be competitive not only with foreigners but with—

Senator BIDEN. With anybody.

Mr. HAUGHTON. With anybody.

Senator BIDEN. You did it just to be competitive. So your basic premise for doing what I suspect, at least I hope you feel to be at least an unsavory practice, involving your company was that you needed to do it in order to be able to compete with competitors, domestic and foreign, to sell your product; is that correct?

Mr. HAUGHTON. That is right.

WERE OTHERS ENGAGING IN KICKBACKS?

Senator BIDEN. OK. Now, the next question I ask you is implicit in that basic premise. You know that your competitors are engaging in the same practice. Yet, you all sit here and look me straight in the eye and you say, well, I just read in the English paper. When did you find out? Because if you didn't know, until you read it in the paper, then you guys have a faulty basic premise upon which you are acting because you didn't need to do it in your own mind, because you didn't know the competition acted in that way.

So I would like some straight answers. Did you know that other companies, domestic or foreign, were specifically offering kickbacks, as you did?

You cannot convince me that the guy you are kicking back to is not saying to you or one of your agents at some point: Hey, look, I am getting \$100,000 for you, Harry is getting \$175,000 from whomever else. You guys didn't know that was going on.

Mr. HAUGHTON. Well, I don't think we know specifically case by case as to what the competition did or didn't do.

Senator BIDEN. You knew enough to spend \$100 million above the cost of the aircraft though, did you not?

Mr. HAUGHTON. What is that?

Senator BIDEN. You had enough information to warrant a business judgment.

Mr. HAUGHTON. That is not just on aircraft, that is on a lot of other things that other countries and other companies could very well compete.

Senator BIDEN. The only reason you spent \$202 million in the way you did was to compete, right? That is a time-honored free enterprise business response. We did it in order to remain competitive. You spent \$202 million of your shareholders' money and Federal Government money and anybody else's money in order to stay competitive.

Now, much of that \$202 million, if not all of it, was spent by way of kickbacks or agent's fees. I assume that you made that judgment based on some facts. You didn't just wake up one morning and say, "Maybe my competitors are kicking back and have agents, so because they might, I am going to go ahead and make a decision to spend millions of dollars to kick back to agents."

Obviously, you knew or you had significant reason to believe that domestic companies and foreign companies were in fact engaging in the practice whereby they kicked back.

EVIDENCE OF KICKBACKS BY OTHERS

Now I ask you again, what evidence of kickbacks on the part of other companies did you have? Keep in mind, if you had none, then if you follow a logical line of reasoning in the syllogism we put together from a basic freshman logic course—your rationale for testifying before us today is nonexistent.

Mr. HAUGHTON. Well, we said we had reason to believe.

Senator BIDEN. What reason? Give me specifics, please.

Mr. HAUGHTON. Well, a lot of times we don't win, we lose.

Senator BIDEN. I see.

So you assume you lost because of dirty pool and not because your competitor had a better product.

Mr. HAUGHTON. And we hear gossip but we don't go on that basis as being absolutely a fact that we know.

Senator BIDEN. You went to the point of spending millions of dollars.

"A WAY OF LIFE"

Mr. HAUGHTON. From smart reporters in the New York Times or the Washington Post or any place you want, you can read that this is in fact a way of life overseas.

Senator BIDEN. Did the reporters from the Times or the Post consult with you in 1962 to advise you of that fact?

Mr. HAUGHTON. No.

Senator BIDEN. Why in the hell did you make the decision in 1962?

Mr. HAUGHTON. Because we were engaged in trying to compete in the foreign market and we competed according to the customs and the ground rules that were in effect out in those foreign markets.

Senator BIDEN. OK, you have answered the question by not answering the question. I want the record to be clear that you have done just that by skirting the response.

If you made your business judgment on gossip, and nothing more, you are one lousy businessman, if you excuse the expression. You are too good a businessman to have operated just on gossip. So obviously you guys knew something pretty significant, and specific. You are sitting here before a Senate committee under oath telling me that you didn't know anything specific about the actions of your competitors. I think that this is just further evidence of the reprehensible conduct on the part of you and your company. Excuse me for being so blunt about it.

"PHONY ANSWERS"

I have not been around here long enough to adopt the proper Senatorial protocol—to say "yes" and "no, sir." I think your answers are

phony. I quite frankly don't like it a whole lot. Thank goodness your company is not located in Delaware and employing Delawareans. I don't have to reconsider what I said to you.

Senator PERCY. Senator Biden I have a 12:30 appointment.

Senator BIDEN. I think any further questions I ask would reveal my prejudice and so I will cease and desist. I won't thank the witnesses for their testimony, but I thank the committee very much for allowing me to sit in. I apologize if I have altered the decorum in any way that is not appropriate for this committee, but they are not getting straight answers.

QUESTIONS OF SENATOR PERCY

Senator PERCY. Mr. Haughton, I would like to end my part of the questioning of you by going back to some of the basic principles with which we are grappling.

Again, it is really not our function and purpose in this subcommittee of the Foreign Relations Committee to perform an investigatory function of just one company or its practices, we are looking for principles, and what we are leading toward is what should we do about all of this. Our objective is possibly legislation or nonlegislation or regulation or nonregulation, but we have got to do something as a result of these hearings and your help and the help of others who have appeared before us can be very useful indeed.

CONGRESSIONAL ACTION NEEDED

In your statement, you state the need for uniform standards and criteria known in advance by the companies so that companies know what the rules of the game are. In fact, you said you want them as soon as possible. The same thing in our oil situation. Uncertainty is worse than anything else for anyone dealing in any business. Congress is sitting on a lot of things. We have got to clear up this thing, establish policy, and hopefully work closely with the administration in so doing.

Should the Congress, in your judgment, make payment of bribes abroad in connection with military sales, illegal under the U.S. law?

Mr. HAUGHTON. Yes, sir, I think you should.

Senator PERCY. Should it define bribes in terms of practices which would be illegal if done in the United States?

You have given a definition here, but should we in looking for a definition, look for one that would apply if the practice were engaged in right here in the United States and would be looked upon as illegal?

Mr. HAUGHTON. I don't see any reason for it not to be the same as it is in the United States, if that is what we decide as a country we want to do.

PUBLIC DISCLOSURE OF PAYMENTS

Senator PERCY. Should the Congress require public disclosure of all commission or agency fee payments made abroad for such sales?

Mr. HAUGHTON. I don't—

Senator PERCY. In other words, public disclosure is one way of getting at a situation. We have applied that to ourselves. We have tried to. Public disclosure of campaign contributions, and so forth, has already stopped a tremendous amount of the abuse that was engaged in before in our American politics and politics around the world. We have at least established a policy and said it ought to be publicized.

In this case should we require public disclosure of commissions or agency fees paid for sales abroad, and I mean now military sales?

Mr. HAUGHTON. That can be done.

Maybe you want to have them disclosed, if there are any exceptions to the rules that you lay down. I don't know if you want to report them all in detail or whether you want to report them in total.

Senator PERCY. Lockheed has taken a very clear policy position now on September 8. You have enunciated a policy very clearly here today that you think there ought to be a uniformity of rules, that you now express to this subcommittee and to the Congress, to the Secretary of State, to the Secretary of the Treasury, to the Secretary of Defense, or any representatives in one of those three agencies, either you or your representatives.

Mr. HAUGHTON. Well, of course, in hearings before the Senate Banking Committee, where Secretary Simon also appeared, I thought we made our policy amply clear. I have not talked with the Secretary of State about it, or the Secretary of Defense.

Senator PERCY. When this issue was discussed, and Secretary Simon had spoken out very strongly on this matter as it relates to Lockheed—have you impressed upon the administration the necessity of working with allied nations in international meetings to correct this situation so that uniformity not only applies to American companies but uniformity applies to all companies doing business throughout the world.

Mr. HAUGHTON. Well, at the time of the Senate Banking hearings, Senator Tower as I recall, suggested this to Secretary Simon, who was soon to attend an International Monetary Fund meeting held here in Washington. He asked him, and the Secretary said he would take this up at that time.

I have not heard what, if any, results came of that, but that is the only effort in that regard with foreigners that I have heard about up to now.

Senator PERCY. Finally, because I have determined to take this up as an adviser to the Secretary, along with other Members of the Senate and the House for the special session of the U.N., that it be contained as a part of the work documents that we present to the United Nations for discussion, because I think in the end the people of these nations pay the cost, somehow it comes out of their hide, and as the chairman has said, it has got to be taken out of food, has to be taken out of education, has to be taken out of something, and the incentive to buy more military products than many of these countries really need has to somehow be removed, and there is going to be reluctance, a resistance to this, but somehow we have got to, again through an international forum, work to get uniformity of practice.

I would be interested if you have had any reaction from the administration to your suggestions because I certainly will want to contact the administration and ask them to take the leadership in this.

Mr. HAUGHTON. I related to you the contacts that I had heard and also we advocate that we have an international understanding on this, so I am in agreement; but if you are asking me if I had been to see these other people, I haven't up until this time. We have been right busy with getting investigated and other matters, as you know, in addition to running our business.

Senator PERCY. Mr. Chairman, I would ask unanimous consent that the record of these hearings be kept open so that further questions can be submitted to Mr. Houghton for written reply.

Senator BIDEN. Without objection.

Mrs. LEWIS. If that was the case, I am very startled that the correspondence relating to the arrangement with Mr. Orara took place from the private home of an employee of Lockheed Co. in Georgia and all mail from Mr. Orara was sent to that place.

Doesn't that strike you as unusual?

Mr. HAUGHTON. I wasn't aware of that. I don't know why that was done and I don't have any answer for you on that.

Mrs. LEWIS. And if it was so normal, there wouldn't have been any need for Mr. Orara to ask for his expenses; if they were perfectly normal they would be covered by the Lockheed Corp.

Mr. HAUGHTON. Well, ordinarily people who work for Infoplan, they get paid by Infoplan.

Infoplan bills us, and it is not surprising that if you ask somebody to do some extra effort, and he thinks maybe he is not getting paid enough from Infoplan, that we would pick up some of the expenses that we may feel may be outside of the charter that he had.

I don't think anything ever came of it but I don't know that.

Senator PERCY. I think I have used my time up.

Senator BIDEN. I have no further questions.

Senator PERCY. I have no further questions.

THE PHILIPPINE DOCUMENTS

Mr. LEVINSON. Mrs. Lewis has one or two questions in connection with the Philippine documents and Philippine case which she has asked on behalf of Senator Case that she be allowed to ask.

Mrs. LEWIS. In the Philippines your company entered into an agreement with a man named Buddy Orara, who was employed by McCann Erickson Co.

According to the documents, one reason you hired him—this is on page 201—was that he is "apparently well connected politically," in fact, was employed in the office of the President of the Philippines.

I was interested in finding out how an arrangement is made in order to hire as a consultant somebody who worked for another company? Did you call McCann Erickson in the United States?

Mr. HAUGHTON. May I explain that to you?

McCann Erickson handles our public relations and service calls and Infoplan. McCann Erickson handles our public relations, where we do not have people stationed around the world. So by reason of the relationship between Lockheed and McCann Erickson and Infoplan, he was on our payroll, by not being an employee but being paid by us through McCann Erickson, just part of the overall payment that we pay McCann Erickson's Infoplan around the world for PR work.

Mr. LEVINSON. The essential point, it seems to me, Mr. Haughton, in the Philippine case, is the question of advising Indonesian officials, or the proposal to advise Indonesian officials as to how to avoid an American embargo during the Sukarno period. Some of the documents in connection with Iran, which evidenced the fact that the com-

pany, at the level of Mr. Kotchian, who I understand is the president of the company, is urging Iranian officials to buy aircraft which in turn will enable them to argue to the Pentagon that for Iran's purposes the cost of the U.S. aircraft will go down. Isn't the analogy that you will use the U.S. Government facilities when it is convenient to you, you will go to the Embassy in Indonesia and you will seek intelligence as to whether or not you ought to use an agent; and you will get Colonel Slade to get CIA to find out whether or not the buy is still with the Government?

When it doesn't suit your convenience, what you do, essentially, is find a way to undermine the stated policy of the U.S. Government, whether it is a good policy or bad policy; and the question then is whether a company like yours really simply uses the U.S. Government as its convenience and undermines U.S. policy when it is convenient from the point of view of promoting sales.

Mr. HAUGHTON. Mr. Levinson, that is not the policy of Lockheed Aircraft. The policy of our company is to abide by our Government's wishes.

Mrs. LEWIS. Jerry cut me off, but I would like to resume the questioning that I began, then Senator Percy, who has something a little bit personal to relate, wants to pick up from there.

Senator PERCY. I think, if you would yield for just one moment, then I have to leave. But I am anxious that you do have a full chance now to ask on behalf of Senator Case all the questions that you have.

M'CANN ERICKSON

I am interested in the McCann Erickson situation. They were used for two decades at Bell & Howell. I have never heard, however, of the practice that is mentioned on page 201 as referenced by Mrs. Lewis, where an employee of McCann Erickson asked for a kickback to himself if he does something, and on page 205 I noticed in this letter that is sent to Mr. McKinney, he indicated that there is mention here with reference to the fact that he wants to be reimbursed and rewarded later on.

Did Lockheed ever make a payment to this employee of McCann Erickson personally, other than the salary?

Mr. HAUGHTON. Not to my knowledge.

Senator PERCY. To the knowledge of anyone here?

Mr. HAUGHTON. Ed, do you know?

Mr. RIDINGS. Not to my knowledge.

Senator PERCY. Would you, for the record, supply that information as to whether or not at any time a request for kickbacks to him were acceded to and, last, I would be interested because McCann Erickson did not handle our public relations, we did that ourselves. Have you increased the account substantially recently with them because of your predicaments?

Mr. HAUGHTON. No.

[The information referred to follows:]

The witness subsequently answered for the record that no request for kickbacks or similar payments were made by Mr. Orara.

Mr. HAUGHTON. We have had to increase them from time to time because of the severe inflation around the world. We have quite a bit of inflation here. There are some places in the world where inflation is even more and we have had to increase. There have been places in

the world where we did not have coverage by them and asked them to put on coverage.

But to answer your question, we haven't increased their pay on account of our predicament, we increased it on account of inflation, or on account of additional work we wanted done for which they were entitled to be paid.

Senator PERCY. It has taken a lot more of management's time away from the business because of this situation.

Thank you very much.

THE PHILIPPINES—CONTINUED

Mrs. LEWIS. To resume, on page 203 of the documents Mr. McKinney writes to Mr. Orara and outlines what Lockheed expects. Mr. Orara is told to engage in a campaign to stimulate public knowledge and even—I am quoting now—"public indignation," that the Philippines had been sold the C-119—that is not a Lockheed plane, is it?

Mr. HAUGHTON. No, ma'am.

Mrs. LEWIS. By the Pentagon, rather than a Lockheed plane which is the C-130. That is a Lockheed plane?

Mr. HAUGHTON. That is a Lockheed plane.

Mrs. LEWIS. Is it customary for Lockheed to stimulate opposition to U.S. Government action in foreign countries where it operates?

Mr. HAUGHTON. No, it is not. It is not our policy to do that.

Mrs. LEWIS. How did this happen to be done?

Mr. HAUGHTON. This happened to be done because of the difference in the two types of aircraft, and no reflection on the C-119, but it is a much earlier model airplane than the C-130 and, as I say, no reflection on the airplane, it was of another time period, two different engineers—

Mrs. LEWIS. Well, in the letter to Mr. Orara, Mr. McKinney then refers back to a document that was issued by the Air Force or by some Air Force official in Brazil, in which they also objected to being sold—now I am reading from Mr. McKinney, quoting from the Brazilians, "cast-off junk."

Do you have any reasons to believe that Lockheed might have stimulated this Brazilian campaign?

Mr. HAUGHTON. I think we stimulated the Brazilian aircraft because it was a sale to the Brazilian Air Force, and it had nothing to do, in my opinion, with U.S. Government policy. We had the product for sale and we were trying to sell it, and in the case of Brazil they have bought C-130's.

In the case of the Philippines, they bought C-130's for commercial use out there, but I do not think they ever bought C-130's for military use, and even though the C-119's were going to be given to them, I do not think they accepted those either, but I am a little unclear.

Mrs. LEWIS. You don't remember. It is not certain that that campaign succeeded. Let us look at what this campaign involved.

Among the reasons why Mr. Orara bore these extra expenses, he was attempting to stimulate a certain kind of article in a business publication. Business publications tend to be, in countries like the

Philippines, reasonably conservative and supportive of government, they tend to be pro-American, don't they?

Mr. HAUGHTON. I cannot tell. I am not familiar enough with their publications to give you a good answer.

Mrs. LEWIS. Would you be willing to say that?

Do business publications tend to be pro-American in the Philippines?

Mr. COWDEN. I have no idea.

Mr. HAUGHTON. They answer that they don't have enough knowledge to give you a good answer.

Mrs. LEWIS. Then Mr. Orara, according to the documents, planted a story with the business publication at a cost to him that was not normally covered by his arrangement with McCann Erickson, or those of McCann Erickson and the Lockheed Corp.; and he fed a story to a major business publication which made an expose of the fact that the Pentagon was trying to sell inferior aircraft to the Philippines, according to the document.

Mr. HAUGHTON. I think they were trying to give them to them, but—

Mr. COWDEN. That is correct.

Mrs. LEWIS. In fact, he was attempting to influence the Philippine Government through a press story to take these planes from the United States?

Mr. COWDEN. That is right.

Mrs. LEWIS. And inevitably, he said, "moving in the local circles with this kind of objective involves financial requirements, whether one is dealing with press people, government people, or army officers."

Would you care to comment on that?

Mr. HAUGHTON. I don't have any further comment on it, Mrs. Lewis.

Mrs. LEWIS. So one can assume that the implication of this document that press people were purchased in the Philippines was not questioned by Lockheed.

Mr. HAUGHTON. Would you say that again?

Mrs. LEWIS. You had no reason to doubt that Mr. Orara did make payments to members of the press in the Philippines?

Mr. HAUGHTON. That is right. But you never asked.

Mrs. LEWIS. I did ask one way or the other.

Mr. HAUGHTON. The man doesn't even work for us except through another company.

Mrs. LEWIS. Senator Biden has some more questions.

Senator BIDEN. I am going to have to leave at 1 o'clock. I would like to get into one other area that may be of some interest.

Mr. Kaplan's memorandum to the file, on page 87, dated August 15, 1968, indicated that the Saudi Arabian director of materiel complained, because he thought that overhead charges were too high, and because you took a profit on your overhead.

My question, and I would be happy to read the pertinent part of that document if you would like—I am quoting from page 87, paragraph 10, which says:

"Harley then met with the Director of Materiel who indicated he thought the overhead charges were too high. He did not understand why there was a profit on the overhead nor why there was a profit on insurance, transportation, and et cetera.

Harley explained to him why there should be a profit on overhead but indicated that he would look into the profit on insurance, transportation, et cetera."

My question is: Do you include commissions as part of your overhead?

Mr. HAUGHTON. It is a direct charge to the contract as a separate item and not overhead, Senator Biden.

LOCKHEEDS' PROFITS ON COMMISSIONS

Senator BIDEN. You do take a profit on commissions?

Mr. HAUGHTON. I don't know if you could say you take a profit on it or not. It depends on the negotiation, what the price finally comes out at. But it is a direct charge on the respective contract and it is not part of overhead.

But to get back to the other question as to whether you should have a profit on overhead, you ought to have a profit on overhead if you can sell your product competitively, just as much as you have on direct labor or material you buy.

I think you will agree with that.

Senator BIDEN. But the real thrust of the question is whether or not there is a profit on the commission that is paid which is included in the cost, and apparently if it is treated as just any other business expense, there is a profit on that amount right?

Mr. HAUGHTON. Well, it depends on how you wanted to break it down so far as your costs are concerned.

I don't think you can necessarily say there is a profit or there is not a profit.

THE "DOUBLE DIP"

Senator BIDEN. Let me try to explain what I mean.

Assume just for the sake of simplicity that an aircraft costs \$1,000. In order to stay competitive you had to pay somebody \$100 to get the contract to sell that \$1,000 aircraft. If your profit margin, again, for the sake of simplicity, was 10 percent on the sale, on the cost of this aircraft, 10 percent of a thousand dollars is \$100. That would be your profit, assuming that was built in. But if you include the \$100 commission, 10 percent of \$1100 is \$110. So you did make a profit on the commission. There is a distinction. If you isolated the profit on the cost of the aircraft and did not include that when computing your percentage of profit, with regard to the commission you pay it would be different. So what I am talking about, you know, is this the old double-dip? We are used to seeing that.

Mr. HAUGHTON. I don't think it is a double-dip, but of course the final profit you make comes out after—you negotiate the price and then what you can build and declare it for, and oftentimes it is not what you thought it was going to be, and it is oftentimes less.

Senator BIDEN. In negotiating that price, you included commissions or kickbacks. That in effect was part of the negotiation.

Mr. HAUGHTON. I hope we wound up with an allowance in there for it. Let's put it that way.

ADJUSTMENTS IN KHASHOGGI CLAIMS

Senator BIDEN. Turning to page 106 of the documents, Mr. Valentine's memo to the file shows extra charges to the contract price of the aircraft to pay Khashoggi an extra amount to adjust a claim he had made.

Now the claim he had made, by the way, was that he wasn't paid enough last time around. He wasn't paid a high enough kickback. He had to be reimbursed somehow.

Were you trying to add extra payments made in connection with this earlier contract to the price of the current sale?

By the way, I'm on page 106 of the documents, if you'd like to refresh your recollection.

Mr. HAUGHTON. I think I would like for Mr. Cowden, who was familiar with the transaction, to answer you.

Senator BIDEN. Again, I repeat the question. Were you trying to add an extra payment made in connection with an earlier contract to the price of the current sale?

Mr. COWDEN. It was not extra payment that we had made, but extra payments Mr. Khashoggi had claimed that he had made, and the answer to your question is, yes, we tried to recover all of our consultant fees.

Mr. LEVINSON. That extra payment was reported by Mr. Khashoggi to be a payoff to a high Saudi official necessary to obtain the previous contract.

Wasn't there a dispute as to whether you had agreed to be liable for that payment?

Mr. COWDEN. There was conversation to the effect that we had agreed to be liable.

I cannot say that it was the immediately prior contract or not but it might have been.

Senator BIDEN. That agreement of liability, whatever that dollar figure came to, was that dollar figure incorporated into the current sale?

Mr. COWDEN. We tried to collect. We tried, as a matter of fact, over a period of several times, we tried; and we finally did.

COMMISSIONS ADDED TO SALES PRICE

Senator BIDEN. I am sure you did.

On pages 118 and 119 of the documents, the tables of calculations include further examples of how the commissions are added to the sales price so they do not cost Lockheed anything, which is what you in effect stated that you have done. And the calculations go on to show that you added a profit margin to the commissions.

I would like for you to take a moment, we are referring to page 118, and again my question is: were you making a profit on the commissions?

Mr. COWDEN. I prefer to submit this particular one for the record. This was done by someone else. But as a matter of policy, as far as the Georgia company is concerned, we determine our prices on the basis of excluding commissions from the cost when we are projecting what the price will be. Then we add the commission onto that to determine the total price.

Senator BIDEN. Maybe you could run through it for me—it will just take a moment—do you have page 118 in front of you?

Mr. COWDEN. Yes, I do.

Senator BIDEN. Now, maybe you could explain to me that page. Let's start at the top.

It says, "Price Breakout—4 C-130 RSAF," the Royal Saudi Arabian Air Force. It says proposal price in the left hand column. Would you go down each figure and explain to me how it was arrived at?

Mr. COWDEN. I wouldn't begin to try to do that.

Senator BIDEN. Is there anybody who could do that for us?

Mr. COWDEN. We can submit it for the record.

Senator BIDEN. OK, fine.

That will be helpful. Thank you.

[The information referred to follows:]

[SUPPLIED BY LOCKHEED CORP.]

The document on p. 118 is not a price calculation. It is rather a calculation of the portion of the price proposed to the customer which Lockheed could anticipate actually realizing if Lockheed were required in negotiation with the customer to reduce its proposed price by a certain amount and if Lockheed paid certain commissions out of the price as so reduced.

A proposal price does include an amount for anticipated profit, but it is not calculated so as to include anticipated profit on commissions.

Senator BIDEN. Mr. Ridings, on page 120 you received a report from Mr. Walden in which he reports the commission demand of an agent. He said.

I have made no commitment and have not revealed the price breakdown but told him this would make the total program cost almost \$9 million.

Now, I take it that that means adding the payments to the price itself, to get it to the \$9 million. Is that correct?

Mr. RIDINGS. Yes, the way I remembered, yes.

Senator BIDEN. And the next sentence goes on to say—

He will also check this with consultant, but feels it is no problem since there is no basis for program comparison.

Which is the point Senator Church was making earlier, which I guess sort of protects the agent a bit there.

Anyway, I won't belabor that.

Finally, on pages 143, 144, and 145, it is appearing that Lockheed is attempting to recoup payments to Prince Khalid and Triad by adding an amount to another unrelated aircraft contract. If you take a moment to review those pages, I would like to know whether or not that is correct. That is how it looks to us. I wonder if it is correct?

Mr. HAUGHTON. What is the question?

Senator BIDEN. Again, on pages 143, 144, and 145, it appears to us Lockheed was attempting to recoup payments made to Prince Khalid and Triad by adding the amount of those payments to another unrelated aircraft contract. I want to know if that is correct.

Mr. COWDEN. No, sir, it is not. It was the same contract, but an amendment to that contract.

Mr. HAUGHTON. This got into a dispute over the tankers, and there was a difference. The requirement for the delivery of fuel per minute changed from the time we did the contract to a later time, and this was a negotiation to give the customer what he wanted and to adjust the price; and it was finally worked out in the negotiation.

Senator BIDEN. One last question, and I will recess the hearings, unless you have a statement you would like to make.

FIXING THE PRICE OF A COMMODITY

Isn't it a fact that the only real problem for the Lockheed Co. occurs when the price of the commodity is fixed before all of the people who need to be paid off or kicked back to put their bids in? Isn't that the only time you really have a real problem?

Mr. HAUGHTON. I guess I don't quite understand your question, I'm sorry.

Senator BIDEN. OK, I will try to say it again.

It seems to me that the only real problem that you run into is when you fix the price of the commodity, the aircraft, before all the people who need to be paid off or kicked back to have put in their bids. In other words, it seems as though that ends up causing you a problem. If you get all the bids before you set the price, you are in good shape.

Mr. HAUGHTON. That is a hard problem on many things, and there is hard competition in this country and abroad. You get in a position where competitors are hatcheting each other trying to make a concession that gets the sale and instead of increasing the price, oftentimes you find yourself decreasing the price to meet the competition.

No doubt about it, that is a problem.

Senator BIDEN. I have two very brief questions. They are really out of the ball park on their face, but I asked a similar outrageous question in a closed hearing a while ago and that is now public knowledge. I asked a company testifying, and I believe Senator Symington initiated it—if the reason why they had to pay off Government officials was to keep the democratic process going; and then just as an afterthought, I said: "By the way, did you pay the Communist Party anything?" And they said: "Yes, we paid them \$190,000." I never expected that answer.

Just for the record, have you gentlemen, engaged in any of this kind of practice within the United States, or with Pentagon people?

Mr. HAUGHTON. No, sir, and I think we made our statement amply clear.

We have not brought any money back into this country, through agents, or otherwise, in our domestic political campaigns.

Senator BIDEN. I didn't expect any other answer. I have no basis for anything. But like I asked the other question, I never expected the answer. I thought I would ask it for the record.

And the last question: Could you supply for the record the list of all your consultants around the world who happen to be former officers in the U.S. military?

I would be curious to have that.

Mr. HAUGHTON. Yes, we can submit that for the record.

[The information referred to follows:]

[SUPPLIED BY LOCKHEED CORP.]

The only Lockheed sales consultant based abroad during the period 1970 to 1975 who was formerly an officer of the United States military is Lt. Colonel E. William Von Wendt, U.S.A.F. Ret., (Bolivia).

Senator BIDEN. Unless you have any statements or comments, the hearing is recessed subject to the call of the Chair. I appreciate your staying this long.

[Whereupon, at 1 p.m., the subcommittee adjourned subject to the call of the Chair.]

APPENDIX

DOCUMENTS RELATING TO FOREIGN SALES & OPERATIONS OF THE

NORTHROP CORPORATION

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PART A

SECTION IV OF THE "REPORT ON SPECIAL INVESTIGATION OF NORTHROP
CORPORATION AND SUBSIDIARIES" BY ERNST & ERNST

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SECTION IVOTHER ASPECTS OF THE SPECIAL INVESTIGATIONA. GENERAL

1. Other Aspects of the Investigation - Section II of this Report describes the results of this special investigation with respect to political contributions made through Northrop's consultants, agents, independent representatives (herein collectively referred to as "consultants"), or by other means. As discussed in Section II, an integral part of this special investigation went beyond political contributions to review the general nature and extent of Northrop's use of consultants (particularly foreign). The results of this additional portion of our investigation are set forth in this Section of the Report.

As previously stated, this aspect of the investigation was for the purpose of (1) identifying various Northrop payments or activities relating to such consultants, which are or appear to be unusual or unauthorized, or by their nature, of interest to the Audit Committee, and (2) making such recommendations as we determine appropriate for the development and improvement of Northrop's internal controls over transactions with such consultants

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It should be recalled that, due to the size and complexity of the Northrop organization, our investigation was, of necessity, aimed at the more significant transactions. While we are prepared to extend the investigation where possible into such additional areas as further overseas interviews, personal background studies, etc., if requested to do so, we believe that, as stated in Section I and II, our investigatory procedures and extent of their application were responsive to the requests of the Audit Committee.

2. Problem Areas Identified - Reference is made to Section I of this Report for a general outline of the work performed, including the investigatory procedures used. As a result of these procedures, we identified the following consultants and transactions to which we believe the Audit Committee's attention should be directed:

<u>Sub Section</u>	<u>Pages</u>	<u>Name or Description</u>	<u>As Referred to Herein</u>
		<u>General Problems</u>	
B	4-14	Frank J. DeFrancis	DeFrancis
C	14-26	Economic & Development Corp.	EDC
D	26-31	Hubert Weisbrod	Weisbrod
E	31-33	Integrated National Telecommunications System	INTS

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Isolated Problems

F-1	38-43	Triad Financial Establishment	Triad
F-2	43-45	Nacional De Servicios De Aeronautica LTDA	Nacional
F-3	45-47	Nihad Sharara	Sharara
F-4	47-48	Interocean Salvage Corporation	IOS
F-5	48-49	Management & Technical Consultants Co., Limited	MITC

Sundry Problem Matters

G-1	50-51	Use of Currency for Northrop Expenditures
G-2	51-52	Unsupported Items on Expense Reports
G-3	52-54	Unusual Payments to Third Parties

3. Policy Matters Involved - Attention is directed to the fact that the utilization of consultants, agents and other independent representatives by Northrop in its dealings with foreign governments involves questions of policy. Policy questions such as this are for the Audit Committee and Board to resolve. A Department of Defense publication on the use of such consultants, which is attached as Exhibit 1-8, may assist the Board in these matters since the publication explains the historical and current role of consultants as intermediaries for corporations who seek to do business in

various foreign environments. Similar perspectives on this matter were expressed by a number of Northrop personnel, including Jones, in various narrations and interviews.

4. Recommendations - Section V contains the recommendations which we consider to be appropriate for more effective internal accounting and auditing controls over the various types of problems referred to in the situations discussed below.

B. FRANK J. DEFRAANCIS

1. Background - Frank J. DeFrancis is an attorney-consultant in Washington, D.C. who, according to our discussions with Jones, has represented the Federal Republic of Germany through its embassy in Washington for some 20 years. A member of the bar specializing in international and corporate law, he is reported by Jones to have served many first-line U.S. and European companies, especially German. Jones reports that DeFrancis was initially retained to fill a Northrop requirement for better access to and knowledge about the people at policy levels within the German government. DeFrancis was initially recommended, according to Jones, by two or three other Northrop officers/employees. In an interview with DeFrancis on September 9, 1974 (see memoranda of such meeting, attached as Exhibit IV-B-2), he affirmed his representation of the German government as U.S. legal counsel for the past 22 years, and described

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generally his dealings on its behalf. A comprehensive background analysis of DeFrancis, as prepared by Jones, is attached as Exhibit IV-B-1. That Exhibit is an excerpt from a letter sent by Jones in late August 1974 to the outside Directors of Northrop (Exhibit IV-H-3). Similar data were compiled in the form of answers to a series of questions directed by us to Jones, the answers to which had been supplied us on August 20 and 23, 1974 (Exhibits IV-H-1 and IV-H-2).

2. Engagement by Northrop - DeFrancis was first retained by Northrop under a two-year contract, dated in August 1967, covering the period from March 1967 to March 1969, which provided for payment of an annual fee in the amount of \$50,000, plus expenses. In May 1969, a new four-year contract was entered into on the same terms, covering the period through March 1973. Both agreements provided that DeFrancis report only to Jones or to others at Jones' request; in addition, the latter agreement provided that: "If you and Mr. Jones agree that in certain instances the services rendered by you hereunder were extraordinary and unusual, in terms of activity and effort and value to us, and beyond those contemplated by this agreement, then additional compensation will be paid you for such services, in such amounts as Mr. Jones, in his discretion, may determine to be equitable."

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On March 16, 1973 a new fifteen-year contract was entered into (see copy of that contract attached as Exhibit IV-B-3). The contract provides that DeFrancis is to report to the chief executive officer of Northrop and is to ". . . provide technical and other information as is necessary or desirable." The contract further provides that if ". . . in certain instances the services rendered . . . are extraordinary, in terms of activity and effort and value to us (Northrop), and beyond those contemplated by this agreement, then additional compensation will be paid for such services, in such amount as the Chief Executive Officer, in his discretion, may determine to be equitable." This contract provides for a basic annual retainer of \$100,000, plus travel and other expenses.

Services being rendered, as reported by Jones, are described generally in Exhibit IV-B-1. In addition, DeFrancis was asked to summarize his work for the prior two years on behalf of Northrop; his response is attached as Exhibit IV-B-5 hereto. With respect to such services, DeFrancis reports, "My endeavors for Northrop have primarily involved matters which revolve around its aircraft programs, namely, the International Fighter, the F5E and its two place aircraft the F5F, and the Cobra projects." In our interview with DeFrancis, he went on to state that his relationship with Northrop was quite "personal." He also discussed at length the specifics of

some of the services rendered in the past. Primarily, he discussed the Cobra (or 530 program), and, in particular, his role in attempting to secure German financing for a portion of this effort.

3. Payments for Services and Investigatory Work Performed - The attached Schedule M indicates total payments to DeFrancis since the inception of his initial agreement with Northrop. One payment (\$50,000) included in the above total was for special legal work in connection with the formation of an overseas corporation - see Part C of this Section of the Report for additional details regarding that entity and DeFrancis' role therein. The total shown on the Schedule does not include a payment made to DeFrancis in currency, which is discussed more fully below.

Our investigation of this consultant consisted of reviews of contractual documentation and correspondence files, inquiry of key executives as to their knowledge of DeFrancis, inspection of support for disbursements made, securing a confirmation of all amounts paid since 1967, and a personal interview conducted in DeFrancis' office in Washington, D.C. on September 9, 1974.

SCHEDULE MNORTHROP PAYMENTS TO DEFRA NCIS

Period since inception (1967) through September 30, 1974

<u>Agreement</u>	<u>Description</u>	<u>Amount</u>	<u>Total</u>
Original agree- ment of 1967	Consulting services, two years at \$50,000 each	\$100,000	
	Expenses	22,919	
	Other special services regarding Iran financing (1)	<u>22,500</u>	\$145,419
Four-year con- tract of 1969	Consulting services, four years at \$50,000 each	200,000	
	Expenses	33,451	
	Other special services regarding overseas corporation	50,000(2)	
	Other special services - payment to Italian consultant (1)	<u>10,000</u>	<u>293,451</u>
			438,870
Fifteen-year contract of 1973	Consulting services, one and one-half years at \$100,000 annually	150,000	
	Expenses	<u>1,483</u>	<u>151,483</u>
		<u>TOTAL</u>	<u>\$590,353(3)</u>

- (1) As reported by DeFrancis during interview.
- (2) See Part C of Section IV of the Report for additional details.
- (3) Excludes currency payment made to DeFrancis from Savy funds. Reference is made to Section III-D for data with respect to difference in amount indicated as paid by Allen (\$60,000); and amount reportedly received by DeFrancis (\$40,000); and to later in this section of the report for additional details regarding this currency transaction.

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4. Weaknesses or Problem Areas Noted

Fifteen-Year Contract - This contract was reportedly discussed at length between Jones and DeFrancis; but according to George Gore, Northrop's Vice President and General Counsel, it was executed with little advance knowledge and review by Gore. Gore's cursory review did, however, raise legal questions as to the enforceability of this contract by Northrop against DeFrancis. He indicated to Jones that, under California law, a contract to render personal services may not be enforceable beyond seven years - see Exhibit IV-B-4 for a copy of this memorandum. This contract apparently was not subjected to any other review and approval within Northrop. Jones reported that the purpose of the fifteen-year contract was in part to secure the services of DeFrancis for the balance of his career. Jones also stated in our discussions with him that he was concerned that DeFrancis' services were being sought by competitors. A third factor set forth by Jones as justification for this contract was the fact that DeFrancis had at one time assumed he would share in commissions of the overseas corporation (see Part C of this Section). In the letter to outside Directors of Northrop (Exhibit IV-H-3) discussing the DeFrancis contract, Jones states his rationale for the long-term contract, as follows: "When Mr. DeFrancis first came to Northrop, he stated that he was much more interested in participating financially in some way that was tied to the success of our

aircraft sales program. At the time I said that while it was unusual, it might be worked out. It was first thought that Mr. DeFrancis could organize such a group as later became the Economic and Development Corporation (see Part C of this Section) and personally participate. The first contract that was written was written with Mr. DeFrancis as a principal in the organization. Then, as it became apparent that we would not be successful in selling the complete development program for the -21 (F5-21) to the Europeans and it was likely that it would be a U.S. funded development, I felt that it was not appropriate for an American national to participate in the benefits of this U.S. funded development program. I therefore asked Frank that he incorporate the company with no U.S. participation, that in recognition of his increased activities, we would increase his fees to the appropriate level at the appropriate time and would extend the length of his contract to compensate for his lack of participation. My reasons for feeling that it was wrong to participate were twofold: It could be questioned within the U.S. Government, but also, most importantly, I felt that Frank's responsibilities be totally and solely to Northrop, especially because the foreign organization interests would have to be in receiving commissions on sales. Therefore, there could be a complication between their short-term interest in their own return and the long-term interest of the Corporation. Another reason for a longer term

contract was that I was aware that other companies, sensing our success in the foreign marketplace, knew of Mr. DeFrancis' relationships with Northrop and were making offers to him considerably more financially attractive than ours. It was for this reason I felt that, although unusual in the normal sense, it would be to the interests of Northrop to give Mr. DeFrancis a long-term contract."

DeFrancis also reported in our interview that the contract was to be long-range, or to cover his services up to retirement. He stated that he believed he had been very useful in the 530 program, and that earlier compensation levels had not been entirely commensurate with his real value. DeFrancis also mentioned (in our interview) cutting back on the number of clients being served due to health, to some degree, and in an effort to provide more personal service to those that were retained. He affirmed discussing this fifteen-year contract at length with Jones, and of his own insistence or demand that it be entered into on this basis.

Absence of Documentation for Services Rendered - Jones states (Exhibit IV-H-1) that DeFrancis reports ". . . from time to time to other members of the Corporation, but primarily to me. Reports verbally on an average of once or twice a week, except during periods of heavy activity when he reports daily as the

circumstances warrant for as much as an hour a day on the telephone." No correspondence or summaries in Northrop's files reflect the receipt of activity reports, written or oral, from DeFrancis. The absence of such summaries or correspondence does support the position that no written reports were received but does not, of course, confirm that substantive oral reports were received. In the DeFrancis interview he confirmed that the contact was primarily (he estimated 95%) with Jones; further, he stated that probably 98% of these were verbal contacts. DeFrancis reported during our interview that he currently devotes 20% or 25% of his time to Northrop matters.

During our inquiries of other key Northrop executives, it was disclosed that no one except Jones appears to know of the nature, extent, or value to Northrop of the services rendered by DeFrancis. Very few executives interviewed by us are aware of the DeFrancis-Northrop relationship in even general terms.

Currency Transactions - In the interview with DeFrancis on September 9, 1974, he stated that on December 13, 1972 he received the amount of \$40,000, in currency, from James Allen in New York. He went on to state that he had at no other time received currency from Northrop or its personnel.

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DeFrancis reported that the amount he requested from Northrop was \$60,000. Of this, \$20,000 was reimbursement for payments to two individuals apparently located in Germany, and \$40,000 was for a retired General in the Washington, D.C. area, who had gone into the practice of law. DeFrancis stated he thought it necessary to secure the services of this General in order to have him provide services to Northrop that would be beneficial in relation to Northrop's competitors. A confirmation letter received from DeFrancis with respect to this \$40,000 is attached as Exhibit IV-B-6. DeFrancis reported to us during our interview that he received only \$40,000 of the \$60,000 requested and stated it was for disbursements, as to which he had obtained Jones' concurrence. DeFrancis reported that he specifically discussed the need for these funds with Jones and that he considered himself a conduit for movement of the funds from Northrop to these individuals.

Jones and Allen had brought this currency payment to our attention in earlier interviews. Jones has reported to us that he recalled the request by DeFrancis, and that he turned it over to Allen to handle as he (Jones) was leaving the country. Jones recalled the amount requested by DeFrancis as being approximately \$75,000, but did not believe the full amount requested was paid. Jones reported that he is not aware of the ultimate use of this currency, nor the exact date that

it was given to DeFrancis by Allen. Jones did, however, indicate that DeFrancis ". . . had a need for the monies in his consulting activities on Northrop's behalf in Europe." Jones also mentioned other possible payments by DeFrancis to the above mentioned Washington, D.C consultant. Jones believed that such payments were in accordance with the contractual arrangements with DeFrancis permitting him to engage other personnel.

Allen's recollections are described in Section III-D with respect to the unresolved difference in the Savy fund accounting. He believes the amount given was \$60,000, but does not recall the date. He did, however, acknowledge traveling with DeFrancis to New York from Washington, D.C. on December 13, 1972 when, among other things, the two met with Simon. ✓

C. ECONOMIC & DEVELOPMENT CORP. (EDC)

1. Background - DeFrancis, the attorney-consultant described in the preceding Part B of this Section of the Report, was instrumental in the establishment of an overseas corporation to aid in the sale of F-5-21 aircraft on behalf of Northrop. We were informed by Jones that conceptually this organization was to utilize personnel from the particular foreign country where sales potential was anticipated, in order to establish a direct in-country operation. Such a company was incorporated

in Zurich, Switzerland on March 22, 1971, and was named the Economic & Development Corp. (EDC). Three individuals were the original incorporators; however, one of them, Dr. A. Froriep, owned of record substantially all of the shares (498 out of 500). The principal source of background data on Froriep was DeFrancis - see his letter to Jones dated August 9, 1974, attached as Exhibit IV-C-1. Jones stated in a letter sent to the outside Directors of Northrop in late August 1974, that the three ". . . organizers and owners of the business are internationally respected as persons of the highest competence in the field of international business, especially in Europe. For example, Dr. Froriep, the Chairman, is the European for the well-known U.S. investment advisory service, American Institute for Economic Resources. The others are businessmen and bankers of broad and trusted ability. . ."

(Excerpt attached as Exhibit IV-C-2). In our interviews with Jones he stated he has never met the EDC people, including Froriep, and that their background was supplied to him by DeFrancis. In our interview with DeFrancis (Exhibit IV-B-2) he indicated that the only person he knew was Froriep, and that he (DeFrancis) had in fact recruited him to head up the EDC organization. In DeFrancis' August 9, 1974 letter to Jones (Exhibit IV-C-1), he states, "I am not personally conversant with the corporations' other incorporators such as I. Isler or R. Kleinar. . ."

"However, in reviewing most thoroughly with Dr. Froriep the basic principles of organization and implementation of your marketing concepts, I emphasized that the personnel he would subsequently engage should be in keeping with the high standards that characterize his personal and professional career." The confirmation reply returned to us from Dr. Froriep (concerning the \$200,000 advance) has a letterhead designating the attorney firm of "Froriep & Renggli" of Zurich with Dr. Froriep listed as one of three attorneys. We also requested our overseas affiliate to obtain additional background data, but they were able to learn little of Froriep, and nothing of Frau Ida Isler (a woman), Rudolph Kleiner, or the EDC organization. These inquiries confirmed the Swiss incorporation of EDC. DeFrancis agreed with an assumption that Isler and Kleiner are likely only nominees used for the purpose of having EDC incorporated.

2. Engagement by Northrop - On September 2, 1971, an agreement was entered into between EDC and Northrop (Exhibit IV-C-3). It should be noted that the agreement is with "The Economic and Development Corporation" which differs from the incorporated name of "Economic & Development Corp." Under the agreement, commissions are payable on sales of the F-5-21 to any foreign government. (The F-5-21 later became the F-5-E.) Such commissions are payable on a sliding scale ranging from

1-1/2% of the first \$10,000,000 to 1/2% of all amounts over \$70,000,000 on sales to the same government. For direct sales made to any foreign government, the commissions are mandatory. For commissions on indirect sales (usually with the United States Government as intermediary), the commissions are discretionary; they are payable as Northrop, in its sole discretion, may deem appropriate. The EDC agreement applies worldwide (excluding the United States) and is for an indefinite term ". . . shall continue unless terminated upon mutual agreement and settlement between both parties hereto." Due to the worldwide scope of this contract, Northrop may be required to pay more than one commission on any sale in countries where other local sales agents are also necessary; Schedule N indicates this possible overlap in commissions. The provisions relative to worldwide coverage and mutual termination were questioned by Gore when he obtained a copy of an earlier September 22, 1969 agreement (see below) in May 1971, but the provisions remained intact.

SCHEDULE NSUMMARY OF EDC COMMISSION OVERLAP WITH OTHER AGENTS

As of June 30, 1974

The following is a summary of the total estimated sales commissions which may be payable on F-5-E contracts in effect as of June 30, 1974, based on worksheets prepared by Northrop Aircraft Division:

	<u>EDC</u> <u>Commissions</u>	<u>Other Agents'</u> <u>Commissions</u>	<u>Total</u> <u>Commissions</u>
MANDATORY COMMISSIONS			
Brazil	\$ 634,000	<u>\$2,313,000</u>	\$ 2,947,000
Republic of China	544,000		544,000
	<u>1,178,000</u>	<u>2,313,000</u>	<u>3,491,000</u>
DISCRETIONARY COMMISSIONS			
Saudi Arabia	650,000	3,764,000	4,414,000
Iran	1,163,000	2,728,000	3,891,000
Malaysia	171,000	462,000	633,000
	<u>1,984,000</u>	<u>6,954,000</u>	<u>8,938,000</u>
TOTALS	<u>\$3,162,000</u>	<u>\$9,267,000</u>	<u>\$12,429,000</u>

(1)

1) See Schedule O regarding determination of amounts.

✓ This contract was patterned almost exactly after an earlier version of a contract which had the same purpose, and in which DeFrancis was to participate. This earlier contract had been executed on September 22, 1969. We understand the 1969 agreement had in turn been patterned almost exclusively after another aircraft company's concept. As to the 1969 (DeFrancis) agreement, Jones said he later concluded that no American was to be a stock owner - either directly or indirectly - and that the officers and board members were not to be Americans. Thus, the 1969 agreement (under which no commissions were reported payable) was effectively invalidated by mutual agreement. DeFrancis was requested in a letter (dated September 22, 1969) to proceed with establishment of the company on behalf of Northrop, but without his direct involvement. Insofar as we could ascertain, the original 1969 agreement was prepared by Jones and DeFrancis, with no review by others at Northrop.

In an interview with Jones on September 23, 1974, he stated that he particularly did not want DeFrancis to get a commission since he wanted his full efforts to be devoted to the Northrop cause, rather than possibly the ELC cause, if they might differ. He stated that he was concerned about an American possibly getting commissions if any sales might go through the U. S. Government, and that he was likewise concerned about the German views and possible legal ramifications W117

in that country. It was not clear why the original September 22, 1969 agreement (with DeFrancis) was not merely assigned in some fashion to EDC, as originally contemplated in a letter of September 2, 1971 from Jones to DeFrancis (which letter was returned and marked "destroy"). DeFrancis reported in the interview of September 9, 1974 (Exhibit IV-B-2) that he has no present relationship (consultant or otherwise) with EDC.

With respect to services rendered by EDC, Jones said in a letter sent to Northrop's Board Members in August 1974 (Exhibit IV-C-2), that the purpose " . . . was to provide a means of highest level support of Northrop's interests and activities around the world, but especially Europe, in the support of the sale of the F-5 family of aircraft. This is deemed necessary to provide the broad and high level support at political, industrial and economic decision-making levels that are important to selection on any major governmental procurement." DeFrancis, in Exhibit IV-C-1, expands upon this general concept. It has been indicated that EDC is, in effect, to work behind the scenes through use of the right people in the right places; a fully independent sales organization with no actual direction by Northrop per se. DeFrancis reaffirmed this in our interview, stating that EDC does not report to anyone. The sales effort is reported by Jones to be the sale of the Northrop name, not necessarily a given product or aircraft,

and that EDC "... works on creating an atmosphere of acceptance. As such, they might not have any active role in a given contract sale, rather their substance is that the Northrop name is accepted." See also Jones' comment on the frequency of EDC reporting as set forth in 4 below.

3. Payments of Commissions and Investigatory Work Performed -

Upon execution of the agreement in September 1971, \$200,000 was provided by Northrop in the form of a non-refundable advance against future commissions that might become due. No other payments are noted to have been made through September 30, 1974.

The financial consequences of the EDC agreement are set forth, in part, in Schedule N. This Schedule indicates total possible commissions to June 30, 1974, based on orders received. These amounts become payable to EDC as payments are received from the customer. Schedule O indicates the estimated amounts owing on this basis, as of December 31, 1973, and June 30, 1974. Schedule O also indicates the estimated amounts and the commissions charged to contracts based on actual aircraft deliveries. Accruals are made by the Aircraft Division based on directions from Corporate Office - see Exhibits IV-C-4 and IV-C-5 for specifics.

SCHEDULE OSUMMARY OF ESTIMATED EDC COMMISSIONS

As of December 31, 1973 and June 30, 1974

	Commissions Charged To Contracts (1)	Commissions Payable (2)	Total Commitment (3)
As of December 31, 1973:			
Mandatory commissions:			
Brazil	\$ -	\$ 140,000	
Republic of China	-	181,000	
		321,000	
Discretionary commissions:			
Iran	80,000	362,000	
Saudi Arabia	89,000	404,000	
Malaysia	-	8,000	
	<u>169,000</u>	<u>774,000</u>	
	<u>\$169,000</u>	<u>\$1,095,000</u>	
As of June 30, 1974:			
Mandatory commissions:			
Brazil	\$ -	\$ 169,000	
Republic of China	35,000	452,000	
	<u>35,000</u>	<u>621,000</u>	
Discretionary commissions:			
Saudia Arabia	174,000	480,000	650,000
Iran	157,000	668,000	1,183,000
Malaysia	-	33,000	171,000
	<u>331,000</u>	<u>1,181,000</u>	<u>1,984,000</u>
	<u>\$366,000</u>	<u>\$1,802,000</u>	<u>\$1,162,000</u>

- (1) Amounts charged to cost of sales based upon deliveries made on applicable contracts.
- (2) Amounts payable to EDC based upon advance (and other) payments received by Northrop for products covered by the agreement. Total is before reduction for the \$200,000 EDC advance.
- (3) Based on orders received - see Schedule N.

Our investigation of Northrop's relationship with EDC consisted of a review of contractual documentation and correspondence files, inquiry of key Northrop executives and of DeFrancis as to their knowledge of EDC, a review of amounts payable and payments made, and the securing of a confirmation as to the \$200,000 advance payment. As stated above, we have attempted to obtain background data on the individuals involved in EDC, by utilizing our affiliate overseas, but little information could be obtained. We have also requested from Forrie information concerning the background of the Company, its personnel, services performed, etc., but as of September 30, 1974, no reply had been received.

4. Weaknesses or Problem Areas Noted

Absence of Documentation Supporting EDC Activities - Jones stated in a letter to us on August 20, 1974 (Exhibit IV-II-1), which was in response to a series of questions we had asked him earlier, that EDC ". . . reports to me through DeFrancis - verbally, perhaps as little as once a month or so, except during periods of heavy activity when reports are more frequent and as circumstances warrant." During our interview with DeFrancis he indicated that, while he is in regular contact with Jones and advises him on a number of matters, he has not reported back to him on EDC operations. He also indicated that EDC does not report back to him. In the DeFrancis

letter dated August 9, 1974 addressed to Jones (Exhibit IV-C-1), DeFrancis stated, "Since this corporate entity was to be totally free to act in an independent capacity, I have not endeavored to become conversant with the details of its operation. In fact, in the past nineteen months, I have had the occasion to personally see Dr. Forriep only twice, the second only being last week on his visit to the United States . . ."

Jones stated in our interview of September 23, 1974 that the concept of non-reporting, as stated by DeFrancis, is a technical answer, that in fact he looks to DeFrancis for reports informally on overseas efforts, which effort would include EDC. No correspondence or memoranda in Northrop's files reflect the receipt of reports, written or oral, from either DeFrancis, EDC or Forriep relative to EDC activities. The absence of such memoranda or correspondence does support the position that no written reports were received but does not, of course, confirm that oral reports were received. The only apparent Northrop correspondence concerning EDC activities is contained in a letter dated March 16, 1973 (date of DeFrancis' visit to Northrop Corporate Offices), from Jones to Forriep in which Jones discusses orders received to date (Exhibit IV-C-6).

The EDC-Northrop relationship appears to be known to only a very few people at Northrop. Jones is apparently the only one who may know of EDC's activities. He stated, in our

✓ September 23, 1974 interview, that it was intended that no one know about EDC, that he didn't want his people to attempt to make use of EDC, or to make inquiry as to EDC efforts. Rather, EDC was to remain completely independent and their results would "speak for themselves."

Commitment for Commissions - Schedule N indicates amounts which may be payable as a result of this agreement. As shown on such Schedule, mandatory commissions are owing in two countries (Brazil and the Republic of China) in which sales have been made by Northrop directly to the respective governments. Jones acknowledged (in our September 23, 1974 interview) that EDC may well have had no direct involvement in these sales; however, he also said their efforts in other countries may have impacted the salability of these aircraft. As to discretionary payments, Jones stated in a letter to us on August 30, 1974, that he anticipates this being resolved through meetings or negotiations, wherein he will sit down with EDC officials and ascertain specifically what they have done, country by country, in order to "... determine the amounts equitably due for indirect sales. At the time of such conference, the specific service performed by EDC in connection with each customer will be discussed and an appropriate evaluation thereof made." Jones, in this same letter, describes the rationale for having the payment of fees set at Northrop's

discretion as follows: "In reaching the agreement in 1971, it was recognized that some sales of the F-5-21 would likely be through the Foreign Military procurement procedures of the U.S. Government, where the U.S. Government contracts for the aircraft from Northrop and the airplane is then resold to the foreign government. It was felt in this case there would be times in which EDC participation in making the sales would be required and proper. It was also envisioned that there would be situations in which outside help was not warranted. It was felt that this determination of compensation on these "indirect" sales could only be made on a case by case basis. In these cases of so-called indirect sales, the payment of commission would be made by Northrop if in its discretion, the exercise of which is conclusive, it seems such payment is warranted and is provided for under U.S. Defense Department ASPR regulations."

Jones also stated in our September 23, 1977 interview that he felt the EDC arrangement provided its owners with a "bit of a windfall."

D. HUBERT WEISBROD

1. Background - We were informed that Hubert Weisbrod is an attorney and consultant who maintains his place of business in Zurich, Switzerland and is approximately 70 years of age. Certain background information that we were able to obtain

concerning Weisbrod is attached as Exhibit IV-D-1, as supplied by Jones. This exhibit is excerpted from a letter supplied by Jones to the outside Northrop Directors in late August 1974 (Exhibit IV-H-3). We had previously been provided similar data by Jones on August 20, 1974, in response to a series of questions earlier directed to him (Exhibit IV-H-1). A general source of background data on Weisbrod is attached as Exhibit IV-D-2, being a letter dated August 10, 1974, directed to Jones by Fred Meuser, who appears to have been instrumental in arranging the initial Weisbrod-Northrop relationship. These various sources depict the Weisbrod role as one of "behind-the-scenes efforts" in various NATO countries. Jones states (Exhibit IV-D-1) that Northrop needed "... the ability to obtain advice on how to best develop industrial relationships in each country which would not only allow the project to be implemented properly but would yield the most attractive sales package from an overall economic, political and industrial point of view."

2. Engagement by Northrop - On April 26, 1968, an agreement was executed between Northrop and Weisbrod appointing Weisbrod as representative of Northrop for the sale of new F-5 aircraft to the governments of the following countries: Belgium, Denmark, France, Federal Republic of Germany, Italy, Luxembourg, Netherlands, Norway, Portugal and the United Kingdom. A copy of the

agreement is attached hereto as Exhibit IV-D-3. The agreement provides for commissions to be earned at the rate of 1% of the sales price (or royalty) received by Northrop from the F-5 sales. Indirect sales through the United States government are not covered by the agreement. The maximum amount payable under the agreement is \$1,000,000.

Weisbrod was retained by Jones, and reports indirectly to him through Meuser.

3. Payments of Commissions and Investigatory Work Performed

Northrop has sole discretion over the amount and timing of the payment of "interim compensation" to Weisbrod, and this has been paid as follows:

May 20, 1968	\$125,000
June 17, 1969	125,000
April 3, 1970	125,000
February 17, 1971	125,000
April 11, 1972	125,000
August 31, 1973	125,000
TOTAL	<u>\$750,000</u>

No payment has as yet been made in 1974, and in a discussion with Jones on September 23, 1974, he indicated that Weisbrod's usefulness appears to have somewhat declined and no further payments will be made until there is an opportunity to sit down and discuss the matter in detail. The above six payments

were generally transmitted with a Northrop cover letter (normally signed by Jones) containing an explanation such as,

"We have determined that a further payment to you under the contract is warranted in view of the continued valuable services performed by you on behalf of Northrop." As to how the \$125,000 interim annual amount was arrived at, or why interim payments were at this consistent level, Jones stated (in our September 23, 1974 meeting), that it was ". . . semi-automatic on my part."

Our investigation of Northrop's relationship with Weisbrod consisted of reviews of contractual documentation and correspondence files, inquiry of key executives as to their knowledge of his services, review of disbursements made since inception, and the securing of a confirmation from Weisbrod as to amounts paid him for the years 1971 through 1973.

4. Weaknesses or Problem Areas Noted

Earnings Under Contract - There have been no Northrop sales of F-5's to the countries covered by the agreement with Weisbrod.

A Canadian company has sold F-5's to the Netherlands under a separate licensing agreement, and some commissions, according to Jones (see Exhibit IV-D-1), may be due Weisbrod under this arrangement although we are informed that this is not definite.

The Canadian/Netherlands sale is presently the subject of a legal dispute. In our meeting with Jones on September 23,

1974, he expanded upon this possible Weisbrod commitment slightly by stating that Weisbrod would have received a commission had Northrop sold to the Netherlands, and thus Northrop might have some obligation to him. Jones went on to state in this meeting that Weisbrod would have some earnings on a pending sale to Switzerland; however, we noted subsequently that this country is not covered by the Weisbrod agreement.

Absence of Documentation Supporting Activities -- Weisbrod
correspondence files contain little since the signing of the agreement, other than the annual transmittal of the \$125,000 interim payment, and a Weisbrod letter of acknowledgement. Jones has indicated that Weisbrod reports to him in certain instances through Fred Meuser, orally and in writing. A review of the Meuser file revealed the biographical sketch of Weisbrod which is attached as Exhibit IV-D-2. The balance of that correspondence concerns certain foreign business matters, primarily between Meuser and Jones directly, with little or no mention of Weisbrod or his activities. Jones has acknowledged that the Weisbrod agreement was somewhat of a forerunner of the EDC agreement (see Part C of this Section), in that services are measured by results rather than reports. No correspondence or memoranda in Northrop's files reflect the receipt of reports, written or oral, from Weisbrod. The absence of such memoranda or correspondence does support the

position that no written reports were received but does not, of course, confirm that oral reports were received.

During our inquiries of other key Northrop executives, it was disclosed that no one except Jones appears to know of the nature, extent, or value to Northrop of the services rendered. Very few executives questioned are aware of the Weisbrod-Northrop relationship in even general terms.

E. INTEGRATED NATIONAL TELECOMMUNICATIONS SYSTEM (INTS)

1. Background - In 1969, Northrop's subsidiary in Vienna, Virginia (Page Communications Engineers, Inc.) entered into a major contract in Iran, for the construction of a telecommunications system. This has been a substantial undertaking (total contract value of over 200 million dollars), and the work is being done by four companies in the form of a joint venture or "consortium," of which Page's share of the effort approximates some 60%. Because of their 60% share of the work, they were also to share in 60% of the overhead costs of the consortium, as well as a similar sharing of the agents' fees which were to be paid relating to this contract. Substantially all of the early negotiations were handled by Page directly, with little initial Corporate Office involvement, in line with Northrop's basic decentralization philosophy. At a later date, certain operational problems were encountered on the contract, and Northrop

Corporate personnel took over active control and management as it relates to Page.

2. Engagement of Agents by Consortium - As shown by Exhibit IV-E-10, a total commission of 5% on the contract was agreed to by the four consortium members ". . . for the payment of third party sales expenses as directed by the Leader of the Negotiating Team," who was J. C. Kitchen of Northrop. Three uses, to date, have been made of this committed amount, as follows:

Denrees - A contract was entered into in 1969 providing for a 2% commission to this agent - see attached Exhibit IV-E-1. In 1971 the rate was raised to 3% (Exhibit IV-E-2). Denrees was a Swiss Corporation, and was reported to us by a senior Northrop officer (Kitchen) who had been headquartered in Iran, to have been in business for some thirty years. An informal inquiry in Switzerland reveals that Denrees was liquidated on February 23, 1973. We do not know if Denrees is continuing to operate in Iran or elsewhere. Background data on Denrees was provided by Northrop to the Internal Revenue Service on March 22, 1973 - see copy of letter attached as Exhibit IV-E-3. This letter was furnished in response to questions by the IRS as to the business purpose, etc. of this particular agreement. This letter sets forth the services which Denrees is said to have performed. Also attached, as Exhibit IV-E-4, is an affidavit

prepared in advance of the letter to the IRS setting forth much of the same information.

PCP - As to PCP, his agreement with the consortium is attached as Exhibit 1V-E-5. It will be noted, that it is not signed by PCP (reportedly his normal business practice). A Northrop statement to the IRS indicating his relationship and the rationalization of the commissions is quoted as follows:

"The commission paid to PCP was in consideration of a wide variety of consulting services. PCP is a private businessman who has rendered similar consulting services to a number of corporations operating in Iran. These fees were paid to PCP as an individual for legitimate services rendered by him. During the years here in question Page was undertaking, for the first time, very extensive operations in Iran, and it was only prudent for Page to obtain the advice and assistance of local experts. It may be the auditors' position that PCP is in some way a "de facto" government official. PCP derives his [royal] title from the fact that he is one of many [relatives] of the Shah of Iran. There are numerous [such relatives] in Iran; and PCP, despite his title, is not an official of the Iranian Government. The value of his services to taxpayers results from his years of experience in Iranian business and not from his purely hereditary title."

Siemens - A third usage was to the so-called "Siemens account."

Siemens is one of the members of the consortium, yet apparently received and disbursed funds, as discussed below, on behalf of itself and the other three members. Siemens is said to have needed these amounts in order to make certain payments on behalf of the consortium. No other written documentation appears to exist at Northrop.

The services that were received for these various payments were described by Northrop only to the extent set forth in the various exhibits referred to herein; little more could be ascertained. The agents are apparently not performing work at the present time, based on our interview with Ross Miller, a Northrop Vice President now responsible for the contract administration. The efforts expended by these agents appear to have been only in connection with the initial contract negotiations, financing, etc.

3. Payments to Consultants and Investigation Thereof - The 5% commission allocated on this contract, has been committed as follows, with the amount paid also indicated:

<u>Agent</u>	<u>Consortium Total</u>	<u>Amounts Paid *</u>
Denrees (3%)	\$ 6,750,000	\$6,750,000
PCP (1/2%)	1,125,000	1,125,000
Siemens account (1%)	2,250,000	2,050,000
Not specified, or uncommitted (1/2%)	<u>1,125,000</u>	<u>-0-</u>
TOTALS	<u>\$11,250,000</u>	<u>\$9,925,000</u>

*Based on information obtained from Page, representing total payments through September 30, 1974

Northrop's share of the total consortium commitment approximates \$6,750,000 (60%). The actual Northrop share of amounts paid is \$5,984,000, which is attributable to the individual agents, as follows:

Denrees	\$4,135,000
PCP	705,000
Siemens	<u>1,144,000</u>
TOTAL	<u>\$5,984,000</u>

These are approximate, inasmuch as the actual Northrop share has varied at times throughout the life of the contract, and it was not generally possible for us to trace actual Northrop payments through the consortium to the ultimate recipient.

We were informed during the interviews of key Northrop executives that there is no knowledge as to the possible use of the uncommitted allocation (\$1,125,000), or of the \$200,000 not yet disbursed to Siemens. Other than certain initial payments which were paid by Page direct, the various payments by Page

were to the consortium. In this latter case, the general sequence of events as described to us was as follows: Northrop would send its portion of the payments to a bank account maintained by the consortium in Switzerland; from which account the final disbursements would be made. The consortium account was not under direct control of Northrop, but rather was under the joint control of all consortium members. We attempted to secure some support for disbursements from the consortium account, and with the exception of an initial (\$1,200,000) payment to Siemens, did obtain some data. The support obtained consisted of letter advices to the Swiss consortium bank authorizing transfers. These letters (copies observed by us were unsigned) were to be signed by two individuals on behalf of the consortium, one of which was a Northrop representative - Hughes (who is referred to in Exhibit IV-E-6). With respect to certain payments, consortium disbursements were made on July 29, 1971 and May 23, 1973, in equal amounts, by transfers from the consortium account to a numbered Swiss account, purportedly PCF controlled. The second payment to Siemens (\$850,000 on June 28, 1971) was also disbursed in this fashion to a numbered Swiss bank account purportedly under Siemens' control. In a 1973 affidavit (Exhibit IV-E-7), Kitchen states his belief that these "Siemens" payments were to be made ". . . to individuals, whose identity I do not know." We were unable to determine the nature and purpose of these disbursements.

In an attempt to support these "third party sales expense" payments, we wrote to the other three members of the consortium asking for confirmation as to total payments made and to whom paid. Two of these have declined to answer - see Exhibit IV-E-9 - and, through September 30, 1974, no reply had been received from the third member. Further, confirmation requests were directed to the purported recipients, asking for verification of amounts received, any return of such funds to Northrop, or any use of the funds for political payments or other unusual purposes at Northrop's direction. As of September 30, 1974, no replies have been received. In addition to these confirmation attempts, our review of the various transactions included inspection of the available contractual documentation and correspondence files. We also conducted interviews with the various Northrop officials familiar with the Page/Iran activities. These procedures were carried out both in the Corporate Office and at Page in Vienna, Virginia.

4. Weaknesses or Problem Areas Noted

Loss of Tax Deduction - The apparent lack of documentation as to business purpose of the Siemens payments has resulted in Northrop's failure to obtain a substantial tax deduction. Northrop's share of the two payments made to Siemens were \$628,000 and \$516,000, respectively, which amounts are not being claimed as tax deductions by Northrop. Two Northrop

affidavits obtained as part of the tax-consideration documentation are attached as Exhibits IV-E-6 and IV-E-7. Also attached as Exhibit IV-E-8 is a copy of a letter issued March 27, 1973 to the IRS setting forth the contemplated tax treatment.

Services Rendered - In our interview with the former president of Page (Waldschmitt) and a representative of Page's outside counsel, we were informed that a representative of Denrees assisted in the initial negotiations and the formulation of the INTS contract. (These services are also described in the various exhibits referred to herein.) None of the present key executives interviewed appeared to be familiar with the specific services provided by the agents referred to in this discussion. Further, present Northrop management in Iran states that no services are currently being rendered by these agents.

F. ISOLATED PROBLEMS

1. Triad Financial Establishment - Triad was retained by Northrop in 1970 as an agent in Saudi Arabia. Pursuant to written contracts, Triad receives 4% to 5% of contract sales prices less the value of certain items that are not construed to be Northrop products. The total commission paid or payable to Triad on existing contracts amounted to approximately \$11,300,000 at December 31, 1973. Payments of approximately \$6,000,000 that have been made under the Triad Agreement, for the three years

ended December 31, 1973, are summarized on Schedule P. Contracts with Triad are primarily handled by the Aircraft Division of Northrop.

The above referenced commissions are being reimbursed to Northrop as part of the contract billing value approved by the U.S. Government. Apparently, one of the reasons the government recognizes these commissions as being reasonable was a meeting in which the principal shareholder of Triad, Adnan Khashoggi, explained his agency relationships to government representatives.

A memo prepared on that meeting which describes how business is conducted in Saudi Arabia (Exhibit IV-F-1) and a general statement of services performed by Triad (Exhibit IV-F-2) are attached for further information in this respect. A magazine article reports that Khashoggi has denied rumors that he contributed to Nixon's campaigns.

Matters involving Northrop's relationship with Triad which were noted during the investigation and considered to be unusual are summarized below:

- (a) During 1971 a representative of Triad approached a representative of Northrop and indicated that it would be necessary for Triad to make a payment to a Saudi General in order to assure his support on a follow-on contract.

SCHEDULE PSUMMARY OF PAYMENTS TO TRIAD FINANCIAL ESTABLISHMENT

Three years ended December 31, 1973

	<u>1971</u>	<u>1972</u>	<u>1973</u>
PAYMENTS TO TRIAD			
Advance payments (non-refundable)	\$ 886,822	\$1,500,000	\$
Special non-interest bearing advance payments (1)		250,000	200,000
Payments to assignee bank on behalf of Triad (2)			2,034,679
Payments to Triad International Marketing Corp. (formerly Alnasr Trading & Industrial)	30,000	30,000	30,000
PAYMENTS TO TRIAD ASSIGNEE'S			
Cantona Establishment	94,178		417,659
Business Services & Research Establishment (2)	40,000	79,892	418,955
TOTALS	<u>\$1,051,000</u>	<u>\$1,859,892</u>	<u>\$3,101,303</u>

(1) Applies against commissions arising from future sales

(2) Confirmation received from indicated payee. No exceptions reported

NOTE - Confirmation requests have been sent on all other amounts indicated above, however, as of the date of this report, no other replies have been received.

We were told that at a meeting in Saudi attended by Jones and others, some type of commitment was solicited, and Northrop ultimately assumed the obligation for the payment (\$250,000). A similar payment (\$200,000) was reported by Triad to be required in 1973 to the successor of the above referenced General.

These payments were ultimately made to Triad in the form of non-interest bearing advances (see Schedule P). About the same time as the second advance was paid, an agreement was entered into with Triad whereby the total of these advances would be applied as a credit against possible commissions which might be earned on future sales.

Discussion with Northrop executives confirmed the above information, which had been initially obtained from our review of Northrop correspondence files. These executives indicated that there was no way for them to know whether or not such payments were actually required or whether such payments were actually made to the Generals. It was their view that such advances might be recovered against future commission payments and were worthwhile in terms of maintaining good business relations with the agent and insure smooth operations in Saudi Arabia.

(b) A Saudi Prince approached a representative of Northrop at the time of a major contract signing and indicated that he deserved a commission on the sale for the work he had performed. He apparently had an agreement with Triad to participate in the commissions on a direct sale and not in the case of a government-to-government sale such as this one under discussion. Representatives of the Saudi Government also approached the Northrop representative and indicated that (whereas they were not speaking in any official capacity) they understood that there was a disagreement with the Prince and they considered this to be most unfortunate, and hoped things would be worked out to his satisfaction.

It is our understanding that Triad attempted to get Northrop to make additional commission payments for the Prince's benefit. However, Northrop insisted that any such arrangements that had been made were Triad's responsibility. An assignment agreement was subsequently executed between Triad and the Prince's company (Cantona Financial Establishment) for a portion of Triad's fees (see Schedule P).

We were informed by Northrop executives that the Prince is a bona fide agent in Saudi Arabia. Furthermore, we were informed

that there are hundreds of such princes in Saudi Arabia, and that this Prince does not have any official capacity in the government.

2. Nacional De Servicios De Aeronautica LTDA - This agent (herein referred to as "Nacional") was retained by Northrop for the sale of F-5 type aircraft and related equipment in Brazil. Northrop's relationship with Nacional began in 1967; the agreements generally provided for small monthly retainers with the primary payment of fees contingent upon the sale of aircraft. The only amount paid during the three-year period ended December 31, 1973, was a \$100,000-payment made in accordance with contract terms. At June 30, 1974, substantial amounts were becoming due based on orders received. Contracts with Nacional are primarily handled by the Aircraft Division of Northrop.

The matters involving Northrop's relationship with Nacional noted during the investigation which were considered to be unusual are summarized below:

- (a) The agreements with Nacional have been set up under a basic agreement which provides that ". . . the compensation shall be a total amount of Two Hundred Thousand United States Dollars (\$200,000.00) . . ." if as a result

of Nacional efforts Northrop receives a contract. Correspondence indicates that the agreement is in two parts, one of which can be shown by Nacional to Brazilian tax authorities and "... an annex that contains the real meat of the compensation." There was another memorandum in the files that indicated "... the fact that we have entered into two agreements with Nacional - one indicating a flat sum payment and one indicating additional compensation - could result in embarrassment to both Northrop and Nacional if the U. S. Government discloses agent fees to the FMS customer."

Northrop Aircraft Division executives questioned on this matter could not recall that the intent of Nacional was to have a separate agreement to show to the Brazilian tax authorities. They also indicated that they did not feel there was anything unusual in complying with Nacional's request for two separate agreements, in that they were going along with normal business practices in that country.

- (b) A dispute arose between Northrop and Nacional involving compensation for optional equipment that might be installed in the aircraft sold. The agreement provided for a flat sum for each aircraft sold and did not specify any additional amounts for optional equipment. Nacional's position

was that they should be compensated for the sale of optional equipment, as such sales reduced the funds available for the purchase of additional aircraft. The correspondence file indicated concern over possible tax consequences. Subsequently, a separate consulting agreement was executed which provides for the payment of an amount (\$325,000) approximately equal to the amount that would have been received by Nacional had additional aircraft been purchased in the amount to be paid for the optional equipment.

Northrop Aircraft Division executives questioned on this matter indicated that even though the agreement did not specify payment for sales of optional equipment, this was the intention of the parties. Further, it was felt that the execution of this separate consulting agreement would assure continued good business relations with the agent and that valuable services would be received by Northrop over the term of the agreement.

3. Nihad Sharara - Sharara is an agent who was retained by the Northrop Ventura Division as their representative in Saudi Arabia. Under a three-year agreement dated April 8, 1971, he was to receive a 5% commission on the sale of the Division's products in Saudi. Amounts paid to Sharara from inception of

his agreement through December 31, 1973, amounted to approximately \$342,000.

The matters involving Northrop's relationship with Sharara noted during the investigation which were considered to be unusual are summarized below:

- (a) The basic commission rate originally due Sharara was 5%, and this was later supplemented by an additional 2-1/2%. This increase was described as being for "extraordinary expenses associated with market development" in a supplement to the agreement. Executives at the Division were questioned as to what these "extraordinary expenses" were, and whether they involved any payments to government officials in Saudi. They said that they did not have any such knowledge, and that the reason for the additional commission was that they were informed by the agent that he needed additional funds to be successful in his work. A decision was then made that payment of the additional compensation was worthwhile in terms of benefits to be received by the Division. We were also informed that the total commission rate was comparable to what other agents were receiving in Saudi for the same type of work. It was noted that the Division did retain a new consultant in Saudi in 1974, who is to receive a similar 7-1/2%.

- (b) There was a letter in the files to Sharara from the Division Marketing representative which stated, "Basically, as we are paid, you are to be paid according to our original agreement. Then, to give you some maneuvering room, I doubled your initial payment." This increase in advance payments was incorporated in a supplement to the basic agreement. Division executives questioned about the reason for the increase in the advance payment and the comment concerning "maneuvering room" explained that this was to assist the agent in his general requirement for operating expenses.

As an aside, it was noted that the above changes in the basic agreement, which took place after the signing of the original agreement, were, nevertheless, dated as of the same date.

4. Interocean Salvage Corporation - This agent (herein referred to as IOS) was associated with Northrop in its Bangkok airport project. This project, which was later terminated, was to be of substantial contract value and was the subject of extensive negotiation proceedings.

An agreement was entered into with IOS, wherein they were appointed exclusive brokers on behalf of Northrop. An addendum to this agreement provided that they were to receive

approximately \$4,300,000, of which \$500,000 was payable at the initial signing by the Thai government of a letter of intent. The balance was payable over three installments at various bench-mark events. We are informed by in-house counsel that originally Northrop was obligated to pay approximately \$1,400,000 upon any initial signing, but that this was reduced through negotiation to the \$500,000 level. This letter of intent was in fact signed, and on February 2, 1973 the sum of \$500,000 was paid by Northrop. Apparently, no further activity occurred, and no work was undertaken nor additional amounts paid to IOS.

The primary matter which was noted to be unusual in this transaction was the fact that this agreement, which resulted in a one-half million dollar expenditure, was executed with no apparent knowledge at the Corporate Office level. The extent of the commitment agreed to by the Northrop representative in Bangkok was reportedly discovered after the fact. It should be noted that this representative is no longer actively employed by Northrop.

5. Management & Technical Consultants Co., Limited - This agent (formerly known as Aviation Technical Services Company, Ltd. and herein referred to as MTC) was retained for sale of Northrop products in Iran. MTC was reportedly headquartered

in Switzerland, and at the time of the name change, was relocated to Bermuda.

Under a three-year agreement, which became effective as of August 1, 1971, Northrop has paid MTC \$150,000 annually for consulting services. In addition, separate three-year agreements exist with three Northrop profit centers which provide for commissions on the sale of their products aggregating approximately \$2,200,000 for the three years ended December 31, 1973. Commissions under these agreements range from a maximum of 4-1/2% on the direct sale of target drones down to 1-1/2% on the indirect sale of aircraft and related support equipment. The annual consulting fee is deductible against any amounts payable under the terms of the commission agreements.

Subsequent to the execution of the agreement between Northrop and MTC, the Government of Iran announced (in 1973) a policy against the use or compensation of agents for transactions consummated as foreign military sales through the United States Government. Continued use of agents is acceptable, if advance approval is obtained from the Iranian Government. MTC has not sought this advance approval; thus mutual attempts are being made to terminate the agency agreement (see Exhibit IV-F-3 attached). Northrop has made a settlement offer for \$1,300,000; however, this was not accepted and further negotiations are in process.

G. SUNDRY PROBLEM MATTERS

1. Use of Currency for Northrop Expenditures

\$30,000 Currency Transaction - On December 22, 1972 a check in the amount of \$30,000 was drawn, cashed, and the proceeds thereof taken to Iran by Ross Miller for certain in-country expenses. Copies of the check request and cancelled check are attached as Exhibits IV-G-1 and IV-G-2. Miller's accounting for such funds, provided as part of his response to the Special Investigatory Procedures Questionnaire, and summarized in Exhibit IV-G-3, reflects that approximately \$18,000 was eventually restored to Northrop's accounting control. We were informed that the remaining currency was used for various expenditures in Iran, the largest portion being used to pay a tax assessor (personally) for his enabling Northrop to eliminate a minor tax matter.

ERO Currency Transactions - The Eastern Regional Office of Northrop (ERO) makes many currency expenditures. See discussion in Section II of this report with respect to the political payments made in currency which were disclosed to us during the investigation. ERO's periodic Corporate Office Reports indicate that many other currency expenditures are made for various purposes. For example, one consultant is paid a small monthly amount in currency, and certain other expenditures (i.e., repairs and maintenance) are also paid

in this manner. We were informed during our inquiry into this practice that it was simply deemed expedient to operate in this fashion. Our review of the reports issued by ERO indicates that a total of approximately \$119,000 was disbursed in currency for the three years ended December 31, 1973. In many instances receipts in support thereof were not available for our review.

Other Currency Transactions - We noted in our review of a former officer's expense reports that currency expenditures were made in Bangkok for various consulting services. These aggregated some \$4,400, usually being made in increments of \$400 to \$700.

2. Unsupported Items on Expense Reports

Pursuant to Northrop policy, certain expenses incurred by Northrop personnel and reported in expense reports are not specifically explained. When certain personnel are entertained, their names are not indicated, rather, the term "Northrop Private" is used. A copy of the Northrop policy statement with respect to expense reports is attached as Exhibit IV-G-4. We were informed that complete details or "names" are submitted initially in order that proper review be made and approval obtained. At this time, the details are then presumably removed and retained under tax department or

other confidential control. An exception to this stated policy was noted with respect to various expense reports from the ERO (referred to in part 1 above), where all such documentation prior to December 1973 had been destroyed.

During our review of selected officer expense reports for unusual or unauthorized expenses, we summarized the expenditures for which no support was available in the Corporate Office Accounting Department. This revealed that approximately \$38,000 was so disbursed in 1973, and \$31,000 in 1972, with only very minor amounts prior thereto.

3. Unusual Payments to Third Parties

As mentioned in subparagraph A of this Section of the Report, this portion of the investigation has been limited to more significant transactions. While the following payments to third parties are not material in amount, it has come to our attention in the course of the special investigation that they were made under circumstances which may cause them to be of interest to the Audit Committee.

Special Payments to Iranian Attorney - An attorney is retained in Iran to handle various legal matters pursuant to an agreement with Northrop. The agreement provides for monthly payments ranging from \$2,000 per month (initially) to \$4,500

per month effective in June 1973. In addition, three lump-sum payments were noted to have been made: \$15,000 in 1971, \$50,000 in 1972 and \$16,000 in 1973. In our inquiries of Northrop personnel, we were unable to determine the need for or propriety of these special payments. We were informed that such payments were "very confidential," and that they were not to be disclosed within Iran. The attorney confirmed the receipt of the funds and the fact that no amounts were returned to Northrop or paid at their direction, but the ultimate usage was not disclosed.

Special Payment to Indonesian Agent - A \$15,000 payment was made to an Indonesian agent in October 1972, which was in excess of the amount provided by the applicable Northrop agency agreement. The ultimate use of these funds could not be determined; however, we were informed by one responsible Northrop employee that he understood the amount went to an Indonesian politician, in the form of a gift. This agent had not, as of September 30, 1974, responded to our confirmation request. ?

Special Payment to Libyan Agent - In June 1973, \$85,000 was delivered on behalf of Page by wire transfer to an account in the Swiss Credit Bank in Zurich, Switzerland. The transfer, in favor

of Z-Comm Establishment was made pursuant to a letter of instruction dated June 21, 1973. Services were reported to have been rendered, although no contract could be located during the special investigation. This agent had not, as of September 30, 1974, responded to our confirmation request.

Unidentified Disbursements at Page - In our work at the Northrop subsidiary in Vienna, Virginia (Page), two transactions were encountered wherein no contracts for services could be located, no definitive description of services could be obtained, and no current addresses could be located. No further investigatory procedures were performed. These matters are described briefly as follows:

1. From approximately May 1971 through June 1972 periodic \$1,000 payments were made to a consultant, reportedly in Iran. The total amount paid was \$15,000 during this period. The consultant's name was Bijan.
2. On November 27, 1972, \$27,000 was paid to a consultant by the name of Maatoug. His services were reported to be in connection with a contract in Libya.

PART B

SELECT ERNST & ERNST NOTES OF INTERVIEWS AND SUPPORTING DOCUMENTS PROVIDED BY NORTHROP CORPORATION IN THE COURSE OF THE SPECIAL INVESTIGATIONS

PART B - 1.

GENERAL DISCUSSIONS OF THE ROLE OF AGENTS AND CONSULTANTS
SERVING NORTROP ABROAD

NORTHROP CORPORATION

ROSTER

I. BOARD OF DIRECTORS

Thomas V. Jones, Chairman

James Allen
Richard C. Bergen
Richard P. Cooley
Earle M. Jorgensen

F. W. Lloyd
Thomas M. McDaniels, Jr.
Richard W. Miller

Clair J. Peck, Jr.
A. E. Ponting
James D. Willson

II. OFFICERS

Elected Officers

Thomas V. Jones, President

James Allen	Vice President - Assistant to the President	Glen R. Lord	Vice President & President - Northrop Airport Development Corporation
John B. Campbell	Vice President - Controller	Frank W. Lynch	Vice President & General Manager - Electro-Mechanical Division
George F. Douglas	Senior Vice President - Administration	Thomas A. McDougall	Vice President - Internal Business Operations
David N. Ferguson	Vice President & General Manager - Electronics Division	Ross F. Miller	Group Vice President & President - Page Communications Engineers - Iran
Welko E. Casich	Vice President & General Manager - Aircraft Division	David H. Olson	Secretary
George Gore	Vice President - General Counsel	Robert W. Page	Vice President & President - George A. Fuller Company
Donald A. Hicks	Vice President - Research & Technology	Howard G. Rath, Jr.	Assistant Treasurer
Ray P. Jackson	Vice President - Program Management	Frederick Stevens	Vice President - Diversification
Irving Kaufman	Vice President & President - Page Communications Engineers, Inc.	James D. Willson	Senior Vice President - Finance and Treasurer
F. W. Lloyd	Senior Vice President - Operations	Woodrum E. Woolwine	Vice President & General Manager - Ventura Division

Appointed Officers

John R. Allison	Vice President - Customer Relations	James V. Holcombe	Vice President - Corporate Domestic Field Offices
Jack P. Bailhe	Vice President & Corporate Executive - Thailand	Jeffrey C. Kitchen	Vice President - National Development Programs
John H. Bruce	Vice President - Industrial Relations	Donald L. Lewis	Vice President - Business Analysis & Management Services
David A. Burchinal	Vice President & Senior Corporate Executive - Europe, Middle East, Near East, & Africa	Geoffrey Parsons	Vice President - European Representative
Walter E. Crandall	Vice President & Manager - Corporate Laboratories	H. Edmund Higgins, Jr.	Vice President - Material & Facilities
Walter J. Curtis	Vice President & Senior Corporate Executive - Pacific Far East	James E. Ware	Vice President & President - Northrop Architectural Systems
Les Daly	Vice President - Corporate Public Affairs	Paul O. Wierk	Vice President & Manager - Northrop Heat Processing
Ward B. Dennis	Vice President - Forward Planning		
William J. Doyle	Vice President		
C. Robert Gutes	Vice President - Northrop International		

III. CORPORATE DIRECTORS

J. Bidlake	Director - Compensation	J. D. Moulus	Director - Diversification Plans & Analysis
W. Byers	Director - International Projects	W. W. Nelkish	Director - Banking Administration & International Finance
H. M. Carson	Director - Organization & Management Development	I. W. Odell	Director - Business Management Services & Auditing
R. J. Clark	Director - F-5B Project	H. O. Roth, Jr.	Director - Tax Administration & Tax Counsel
R. M. Dickerson	Director - Corporate Administrative Services	R. Sehanberg	Director - Technology Applications
W. C. Ellet	Director - Market Research & Analysis	W. A. Schomberger	Director - Communications
P. J. Faranda	Director - Industrial Relations	H. I. Smart	Director - Corporate Flight Operations
F. J. Gerace	Director - Advanced Requirements	R. A. Stanberry	Director (Acting) - Insurance
W. H. Habbitt	Director - Corporate Support Activities	H. A. Tatham	Director - Corporate Accounting
A. E. Johns	Director - Government Financial Relations	R. B. Walter, Jr.	Associate General Counsel
L. F. Kinsel	Director - Corporate Procurement	W. D. Williams	Director - International Plans
R. J. Ericksen	Director - Media		
D. E. Lutz	Director - Retirement & Savings Plans		

IV. CORPORATE AND DIVISIONS FIELD OFFICE STAFF**A. Domestic Field Offices****• Corporate Eastern Regional Office (Arlington, VA)**Corporate

J. V. Hulcombe, Vice President & Manager
 F. M. Keenan, Deputy Manager
 R. L. DeLasso, Asst. to VP & Manager
 G. R. Tankersley, Director, Plans
 H. P. Walker, Director, International Programs and Diplomatic Affairs
 T. P. Nelson, Public Relations Representative
 J. R. Allison, Vice President, Customer Relations
 W. J. Whelan, Assistant to the Vice President, Northrop Research & Technology Center

Aircraft

H. S. Sabatier, Manager
 W. Bailey, Representative

Electro-Mechanical

H. V. Bray, Manager
 D. DeRepenigny, Representative

Electronics

M. F. Johnson, Manager
 R. A. Walsh, Director (USAF/NASA)
 S. L. McKenney, Director (Army)
 W. R. Kutz, Director (Navy)
 N. F. Garrigus, Director (EW Systems)
 W. H. Probst, Representative

Venture

A. W. Elliott, Manager
 G. G. Duke, Representative
 W. C. Mahoney, Representative

Northrop Services, Inc.

J. R. Bruce, District Representative

• Corporate Central Regional Office (Dayton, OH)Corporate

L. C. Breckenridge, Manager

Aircraft

J. D. Wells, District Office Director
 R. J. Grogan, Engineering Representative

Electro-Mechanical

M. L. Sutherland, Representative

Electronics

J. B. Durey, Director
 J. J. Randazzo, Representative

Venture

T. W. Knacke, Representative (Technical)

• Corporate Southeastern Regional Office (Florida)

B. D. Strickland, Corporate Consultant

• Corporate West Central Regional Office (Oklahoma City)

W. A. Schumann, Manager

• Corporate Pacific Area Office (Honolulu)

J. A. Dorsey, Manager
 R. N. Cordell, Manager, Page Communications Engineers, Inc.

• Huntsville District Office - Electro-Mechanical & Venture DivisionsElectro-Mechanical

J. D. Bradbeer, Representative

Venture

D. Smith, Representative

• Northeastern Regional Office - Electronics Division

B. H. Dean, Director
 G. J. Frate, Marketing Representative Regional

• San Antonio District Office - Aircraft Division

D. J. Collins, Director

B. Foreign Field Offices**• Africa (London, England)**

W. A. Buhwell, Regional Manager

• Europe (Paris, France)

G. Patterson, Vice President & European Representative

• Far East (Hong Kong, Taiwan)

W. A. Weir, Regional Manager

• Latin America (San Diego, California)

H. W. DeHoch, Regional Manager

• Middle East (Tehran, Iran)

Y. A. Pitts, Regional Manager

• Near East (Beirut, Lebanon)

R. G. Kopan, Regional Manager

• Scandinavian Countries (Oslo, Norway)

L. B. Chapman, Regional Manager

• Southeast Asia (Bangkok, Thailand)

J. P. Barth, Vice President & Corporate Executive Thailand
 R. A. Uhrig, Regional Manager

*For addresses, see ISM 903

C. Matthew S. A. Offices● Italy (Rome)

O. Colonna, Regional Director

● Spain (Madrid)

M. A. Alonso, Regional Director

● Greece (Athens)

G. D. Gerasopoulos, Regional Director

D. Division Foreign Offices● Republic of China - Aircraft Division

A. J. Blood, Director

● Headquarters EUCOM - Aircraft Division (West Germany)

M. C. Haefke, Director

● Saudi Arabia - Aircraft Division

B. F. Collins, Jr., Vice President

●V. OPERATING DIVISIONS AND SUBSIDIARIES STAFF● Aircraft Division

W. E. Garich, Corporate Vice President & General Manager
 O. B. Doyle, Vice President & Assistant General Manager
 R. H. Eddington, Division General Counsel
 D. Darnell, Jr., Military Liaison
 A. J. Blood, Aircraft Division Office - Republic of China
 B. F. Collins, Jr., Vice President - Saudi Arabia Operations
 M. G. Gonzales, Vice President - Contracts & Pricing
 P. A. Jacobs, Vice President - Manufacturing & Material
 M. Kuska, Vice President - Customer Requirements
 J. L. McCoy, Vice President - F-5 Programs
 K. M. McNamara, Vice President - Finance
 R. H. Madeira, Vice President - Support Services
 J. Manaton, Vice President - Administration
 D. D. Warner, Vice President - Engineering
 L. F. Begle, Manager - Cobra Program Technical Management
 W. E. Fellers, Manager - F-17 Program
 G. E. Reed, Manager - Cobra Program Business Management
 R. V. Schmidt, Manager - Business Development Planning
 H. B. Goether, Manager - Commercial Programs

● Electro-Mechanical Division

F. N. Lynch, Corporate Vice President & General Manager
 D. A. McInale, Vice President - Operations Department
 P. M. Nickette, Vice President - Deep Ocean Simulation Facility Task Team
 W. B. Bimacka, Vice President - Technical and Marketing and Planning Departments
 R. S. Taylor, Vice President - Financial Management Department
 F. F. Forva, Division General Counsel
 H. Ervin, Manager - Tactical Systems Programs
 R. L. Steffler, Manager - Industrial & Community Relations Department
 R. C. Iha, Program Manager - Automatic Test Systems/Electro-Optical Systems Program Office

● Electronics Division

D. N. Ferguson, Corporate Vice President & General Manager
 J. M. Simon, Assistant General Counsel
 J. W. Taft, Corporate Communications Representative
 O. C. Chalmers, Vice President & Manager - Financial Management Department
 L. Kaufeld, Vice President & Manager - Avionics Department
 J. Yarnon, Vice President & Manager - Precision Products Department
 B. H. Dean, Director - Marketing Field Operations - Northeastern Region
 J. R. DeJoy, Director - Marketing Field Operations - Dayton
 H. L. Janssen, Manager - Division Relations & Services Department
 M. E. Johnson, Manager - Marketing Field Operations - Eastern Region

● Ventures Division

W. E. Wachline, Corporate Vice President & General Manager
 R. M. Elder, Special Assistant to the General Manager - Customer Affairs
 P. H. Irvine, Corporate Public Relations
 F. P. Tipton, Assistant to the General Manager
 J. E. Evans, Vice President - Production Operations Department
 O. C. Grogan, Vice President - Product Development Department
 V. W. Howard, Vice President - Engineering Department
 W. F. Sternadel, Vice President - Financial Management
 O. K. Kyler, Division Program Manager - MK 38 Program Office
 D. B. Maher, Program Manager - MK 37 Program Office
 J. H. Bailey, Division Program Manager - Aeronautical Systems Program Office
 R. T. Burke, Manager - Division Business Planning
 R. D. Fairless, Manager - Industrial Relations & Administration
 H. D. Parker, Manager - Quality Assurance

● Berkley Scientific Laboratories, Inc.

D. N. Ferguson, President
A. T. Migliori, Vice President & General Manager -
Business Data Systems
H. W. Turney, Jr., Vice President & General Manager -
Medical Data Systems
G. C. Chalmers, Treasurer

● George A. Fuller Co.

R. W. Page, President
R. C. Daly, Assistant to the President
R. Melongren, General Counsel & Secretary
G. Conway, Senior Vice President
H. E. Drayer, Senior Vice President
M. J. Nolan, Senior Vice President
J. Hensinger, Senior Vice President & Manager -
Midwestern Regional Office
L. W. Pott, Vice President & Chief Financial Officer

● The Hollicrafters Co.

J. M. Ricketts, President

The Hollicrafters Co. - Communications Equipment
Division

J. M. Ricketts, General Manager
B. Dressner, Vice President - International Marketing
D. Cross, Acting Manager - Radio/Telephone Marketing
G. Larson, Manager - Overseas Operations
J. C. Mathews, Jr., Manager - Land Mobile/
Distribution Products Marketing
J. Maycan, Manager - Division Administration
B. S. Parnet, Manager - Engineering
R. M. Shappee, Manager - El Paso Mfg. Operations
Department

The Hollicrafters Co. - Defense Systems Division

D. Wahl, Vice President & General Manager
J. McNaughton, Acting Assistant General Manager &
Vice President - Finance
W. Solberg, Vice President - Engineering
R. Brooks, Manager - Manufacturing Operations
R. Burke, Manager - Employee & Community Relations
G. Giacomino, Manager - Advanced Technology
L. Metevier, Manager - Business & Program
Management
L. Thomas, Acting Manager - Customer Relations
D. Wahl, Acting Manager - F-15 Program

● Northrop Aircraft Development Corporation

G. R. Lord, President
J. L. Dotis, Jr., Executive Assistant to the President
A. J. Moser, Vice President & Treasurer
W. H. Arata, Vice President & Senior Technical
Advisor
M. P. Arza, Vice President & General Counsel
E. L. Daguerth, Vice President - Program Management
R. E. Nelson, Vice President - Aircraft Systems
D. C. Sullivan, Vice President - Marketing Services
B. MacDonald, Director - Domestic Marketing &
Secretary

● Northrop Architectural Systems

J. E. Ware, President
B. Montag, Jr., Vice President - Finance & Administration &
Controller
C. Childers, Manager - General Sales
F. Hoffrichter, Manager - Marketing/LC/Finish
J. Hunter, Manager - Manufacturing
J. Manslovitz, Manager - Custom Products

● Northrop Carolina, Inc.

J. M. Ricketts, President
R. J. Ballard, Plant Manager - Riverside Plant
R. J. Ballard, Acting Manager - Marketing
J. F. Dusenbury, Controller - Administration

● Northrop Dakota, Inc.

L. Kaufold, President
H. Frankenberg, Vice President
J. D. Howell, Vice President & Plant Manager
G. C. Chalmers, Treasurer

● Northrop Electronic Corporation

W. E. Woolwine, President
J. R. Flores, Managing Director

● Northrop Pacific, Inc.

W. E. Gasich, President
F. O. Merrill, Plant Manager

● Northrop Services, Inc.

F. W. Lynch, President
W. J. Onkes, Vice President & Manager
F. Forre, Secretary
R. S. Taylor, Treasurer
W. C. Armstrong, Manager - Marketing & Planning
J. A. Barclay, Manager - Southwestern Operations
A. E. Rhythe, Manager - Industrial Relations
H. P. Clagett, Manager - Houston
A. A. Herron, Manager - Western Operations
J. W. Jenkins, Manager - Eastern Operations
N. Richard, Manager - Administration & Finance
R. W. Sheffield, Manager - Goddard

● Northrop Technology Development, Inc.

T. A. McCabe, President

● Northrop Worldwide Aircraft Services, Inc.

R. H. Madelra, President
G. Anderson, Vice President - Marketing
A. L. Charlipar, Vice President & General Manager

● Olson Laboratories, Inc.

R. L. Gibney, President
R. D. Gafford, Vice President - Research & Engineering
J. R. Murphy, Secretary/Treasurer - Finance &
Administration
E. J. Norman, Vice President - Marketing & Planning
G. M. Wilson, Manager - Operations

*Northern Communications
Listed
12.31.72*

PREPARED *UNRECORDED* 12/1/72

APPROVED

Corporate Register
Page 5 of 5
1 December 1973

● Page Communications Engineers, Inc.

Irving Kaufman, President
Allen Ader, Vice President - Operations, Central & South America
John H. Baker, Vice President - Finance
W. Douglas Carter, Vice President - Operations, Far East & Pacific
Brian W. Dougherty, Vice President - Administration
H. Frank Gillard, Material Vice President
Homer S. Ihard, Vice President - Operations
Jack W. Kinnally, Vice President - Operations, Technical Service
Laird L. Levison, Vice President - Operations, North America
James S. McLeod, Vice President - Program Development
Richard S. Reed, Vice President - Industrial Relations
George J. Thiergartner, Vice President - Engineering

● Warnerke Electron Tubes, Inc.

L. R. Grohe, President
F. Voltaggio, Vice President - Marketing
D. Straza, Controller - Finance & Industrial Relations
O. Doehler, Chief Scientist - Research & Development
C. F. Collins, Manager - Programs & Contracts
B. Ryland, Manager - Operations

● Wilcox Electric, Inc.

R. J. Shank, President
D. R. Dermond, Vice President & Manager - Marketing
D. R. Egluff, Vice President - Finance & Treasurer
C. D. Fedde, Vice President - Support Engineering
J. Katona, Vice President & Manager - Manufacturing
J. E. Woodward, Vice President - Engineering
W. R. Lewis, Director - Advanced Planning
V. C. Dahlstrom, Manager - Industrial Relations

● World Wide Wilcox, Inc.

R. J. Shank, President
J. R. Hunt, Vice President & General Manager
M. L. Durd, Director of Finance
E. W. Denzler, III, Director of Operations
K. M. Palce, Director of Marketing
J. C. Robbins, Manager of Industrial Relations
H. N. Okazy, Manager of Construction Engineering

Northrop Special Investigation
Summary of Corporate Wide Consultant and Agent Fees

(65)

	1971	1972	1973
PROFIT CENTERS INCLUDED IN INVESTIGATORY PROCEDURES			
PC-10 Corporate Office	\$ 1108300.00	\$ 891000	\$ 1063000
PC-12 Aircraft Division	1298000	2107000	4213000
PC-7 Rocket Division	1870000	4770000	4050000
PC-11V Page Communications	669000.00	1070000	1590000
PC-15 Page Engines	2140000	3890000	3100000
PC-14N Page Jet	3560000	-	4050000
PC-9 World Wide Water	2830000	2060000	14010000
PC-10 M. A. R. C.	2150000	3410000	5920000
PC-8 Geo. A. Sullivan Co.	-	2340000	1470000
TOTAL	9520000	5234000	10610000
% of Grand Total	86%	83%	85%

PROFIT CENTERS NOT INCLUDED IN INVESTIGATORY PROCEDURES

PC-11(a) Rocket Division	350000	248000	403000
PC-23 Rocket Division	1870000	72000	920000
PC-5 Rocket Division	1150000	186000	2250000
PC-5 Rocket Division	350000	62000	220000
PC-5 Rocket Division	3040000	3530000	3260000
PC-8(a) Rocket Division	840000	106000	340000
PC-11(a) Rocket Division	-	131000	254000
ALL others (see page 6 for details)	1010000	1010000	2250000
TOTAL	1170000	1259000	1644000
GRAND TOTAL	\$ 5700000	\$ 6993000	\$ 12254000

5 (1) Includes provision of fiscal year 1971 fees.

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JCLR

NAME

JPG 9/15/71
RBA 9/15/71

Northrop Special Investigation
Accumulation of Consultant and Agent Fees
Other Cost Centers

66

DEVL PT	1971	1972	1973
PC-V Corporate Sales	43000	10000	31000
PC-V NTD	8000	5000	3750
PC1(a) Northrop Pacific	---	---	---
PC3 Northrop Carolina	N/A	N/A	N/A
PC3 Orion Sales	N/A	66000	145000
PC1(a) Northrop Dakota	N/A	N/A	N/A
PC3 Northrop Services	50000	12000	20000
PC4 Maintenance	N/A	N/A	N/A
PC5 ADVAISI	10000	10000	22000

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ERNST & ERNST

LOS ANGELES

DATE **June 26, 1974**

SUBJECT Interview with T.V. Jones
on June 25, 1974

The purpose of the meeting was to conduct a preliminary interview and hold an exploratory discussion with Mr. Jones in connection with the special investigation. Mr. Jones had met the previous afternoon with the Audit Committee (attended by Messrs. Willens and Crim) wherein he set forth to some degree the same matters to be discussed today in more detail.

Jones led off the discussion by reciting that he would like to refresh himself and us as to the sequence of events leading up to the special investigation. He stated that he was concerned about the status of the special investigation, in that bits and pieces were being picked up here and there and perhaps they were not being pieced together properly. He further stated that he was concerned about the Savy relationship, particularly since receipt of the letter from Savy, wherein he declined to participate or work with us during the conduct of the investigation. He felt that Savy's letter may raise questions in our mind, which he wanted to dispel. He further stated that in his mind the "whole problem is purely Savy."

To Northrop file

Page Two

June 26, 1974

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He then gave a brief overview of the origination of the Savy agreement. He started this by recounting very briefly the early history of Northrop (in the 50's) where they were having a real problem making a profit and making a go of it. Allen came on board in the very early 50's, and Jones shortly thereafter. At this time the basic premise at Northrop was that they should adopt a very "hands off" relationship as regards political matters. Jones did begin to obtain some knowledge of what others were doing in the political arena, however, and he somewhat looked into this area, and knew that Allen had done public relations work at his prior company (Rand Corporation) and decided that he would be the logical man to spearhead this type of relationship at Northrop. In 1959 Allen was appointed vice-president for Public Relations.

In 1961 Northrop apparently lost some business in Europe, and they were concerned about what they might have to do to make sure that their reputation and name became known. They felt that they almost had to go overseas for business, inasmuch as they were not getting what they considered their fair share in the U.S., because of their "honest pricing" policy. Jones stated that he always felt it more prudent to give a more realistic estimate on the front end, even though in the U.S. it may mean that you are not awarded the contract because you were not the low bidder. They thus decided to go overseas with the hopes that they could enter the foreign arena and be successful. They felt that in order to do this, however, they needed an expert and needed a "window" in the foreign countries. They felt the best way to do this was with an independent party. Allen explored this possibility, and in 1961 he found Mr. Bill Savy through an acquaintance he had by the name of Stanley Simon. Savy's background is on file, and was apparently explored at great length by Northrop. He was an attorney, a former intelligence officer, and had apparently been used by his government for various investigations in the U.S. in the aero-space industry. He apparently also worked for European companies, such as Rolls-Royce, and has apparently for a number of years been very active in arranging for foreign loans for private parties, corporations, etc. Jones met Savy and they agreed to enter a working relationship. Per Jones, he was originally to be used only for his "window" and was not to be used originally as a conduit for funding funds back to the corporation for other purposes. To the best of Jones' recollection, this conduit idea started maybe three or four years later. This apparently started as Allen continued to bring to the attention of Jones questions of political activity, what he felt others were doing, and what he felt Northrop would have to do to maintain their posture. There apparently evolved the conduit approach, wherein they felt this was the best way to have some funds to take care of their political commitments, and at the same time being very discreet. Jones said he felt in his own mind that this approach was practical, and reasonable. The dollars coming back in to Allen, were thus used as required to meet their political commitments, and there was no advance planning as to an amount of fund to be established. Jones said that he believed that this approach was far better than what others did - for example - to require the officers and directors to make political contributions for which the Company then perhaps increased their bonus, etc. or secondly, to use vendors or suppliers for this purpose. Jones said they ~~never~~ discussed or ~~but~~ never considered these other alternatives, but felt that this foreign consultant

J.S.

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To Northrop file

Page Three

June 26, 1974

conduit approach was a practical working solution. Jones stated that he has never discussed with Savy specific transfers of funds back to the Corporation, but that the practice more or less evolved and was just done as the need existed. Jones did state that he felt the funds varied considerably as the requirements varied, but he had no estimate as to total amount of funds that may have been returned to the Corporation. The only matter of which he was very personally aware, was the major \$120,000 payment to Savy in 1972, which is the subject-- initially- of this special investigation.

In response to certain questions as to what Savy produced for his payments, Jones said that his work was very worthwhile to the Company, but that very little was received from Savy in writing. He stated that Savy liked to discuss personally or by telephone the work he was doing, and that normally his work had very easy answers. He stated that early in the arrangement with Savy, almost always these discussions were with Allen, but that in early 1973 he had more contact with Savy because of the importance of a major project in Belgium. Jones stated that early in their relationship with Savy, he had only met personally with Savy on a very few occasions. Again in response to a question, Jones stated that he has not talked to Savy since March 8th of this year, and that prior to that he had seen him a few times regarding the Belgium contract.

Jones then went on to describe certain other matters pertinent to the investigation which occurred prior to 1972. These had to do with certain other political contributions of which he was aware, and which often he drew on his personal account, and then was reimbursed from the "Savy funds." Based on his recollection and available records, these aggregated some six to seven thousand dollars. He stated his secretary had the very precise record of what was received in the form of these reimbursements since 1970. He further stated that he had only once delivered cash from the Savy funds to anyone - this being the \$50,000 payment to Kalmbach. He went on to state that he was aware that other presidential candidates - such as Humphrey and Johnson - had been given money by Northrop, but he was not aware from which source these monies arose. He further stated he had heard about certain other contributions, such as a \$20,000 contribution to Holmes Tuttle, and two \$3,000 payments to the 1968 Nixon campaign. These items were apparently set forth or came about during the Grand Jury investigation.

He then went on to state that the only non-political use of the Savy funds which he was aware had to do with a \$60,000 payment to a European consultant by the name of DeFrancis. This payment was apparently required for some major commitments in Germany. His understanding was that these payments went to certain "lobbyists" in Germany to help in getting their program or proposal before the right people and in an expeditious manner. At this point in the discussions Mr. Jones answered various questions posed by other members present - primarily questions asked by Ray Crim. Crim's first question had to do with a point of clarification. This was whether or not Jones had any knowledge as to how much came back from Savy in total, and whether or not the amounts returned were systematic or were on any sort of fixed or predetermined scale. Jones answered both of these questions with the statement that he did not know. Crim then asked Jones

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to describe briefly his definition of a "window." Jones stated that they learned very early in their overseas ventures, that being a small Californian corporation, and being non-commercial, that in addition to knowing your own product and being a good salesman, you had to know, the industrial, political, and economic policies of the country. Further, you had to have good rapport with U. S. agencies and perhaps most important, you had to have good rapport with knowledgeable people. He stated that he used these windows to know the knowledgeable people, and get to know the various policies of the country in question. He felt that you don't attempt to go into these countries and bribe people, but that you have to know who you should talk to and then just wait for the right opportunity to do so. You have to be tolerant and "hold their hands." You can't force an issue, but have to keep in touch and be prepared to act once the "clouds opened." He stated that another way of gaining this "window" is by establishing business relationships with established companies abroad. The two examples mentioned by Jones were the two major Northrop investments - Fokker and Casa. He did feel however that this business relationship had to be supplemented by strong advisors or consultants and that thus arose the Savy relationship, as well as certain other key consultants utilized by Northrop. Certain of these other key consultants mentioned by Jones were their relationship in Greece, where Northrop has been most successful in gaining business, and at the same time not being involved in the political turmoil in that country; their relationship with Kermit Roosevelt - whom Jones considers the leading consultant in the middle east; the relationship with Sam Suki, who has a good rapport with the Saudi Arabians; Chennault in Asia; and the DeFrancis agreement or relationship in Germany.

Crim at this point explored a little more deeply the question of what the consultants gave in return for the payments made thereto. Jones stated that again personal relationships in these foreign countries is everything. He described the relationship in this manner - "Agents open doors and keep you apprised, they are a stethoscope on the workings of the government." Crim then asked if Jones would describe what he felt Savy meant when he referred to his commitments. The thrust of the implication by Savy is that he uses others to which he has to make payments. Jones felt that these commitments were Savy's various agents or others which he in fact did use to further his own career. Clearly he cannot be everywhere at one time, and probably relies on others to generate or accumulate facts and information for him. These commitments thus become part of Savy's cost of doing business. Crim asked if Jones was aware as to whether other Northrop consultants used so-called sub-consultants, and whether or not he was aware if any other Northrop consultants built up funds in their own house like Savy. Jones stated that to his knowledge none of the relationships worked in the manner of Savy. He felt that to the best of his knowledge, Savy was the only one using these sub-consultants, except maybe for certain "stringers." Per Jones, the stringer is an individual who may be on call for information, but who is not working full time or devoting considerable efforts for the project in question.

At this point of the meeting Crim handed out the schedule of payments made to Savy since 1961. This is a summary of Northrop prepared data, and a copy is attached hereto. Certain questions were directed to Mr. Jones from this schedule, highlighted as follows:

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1. Crim inquired as to what the difference was between the various Company names used by Savy. Mr. Jones stated he was not sure, and this question should be asked of Allen.
2. Crim inquired as to whether or not he knew what a reasonable amount of compensation to Savy was - for example is the \$10,000 a year reasonable. Again Jones stated that to the best of his recollection, the amounts fluctuated for a number of reasons, such as level of effort, later on as to how much might be required for political commitments, and at other times payments were a by-product of budget cutting and general belt tightening at Northrop.
3. Crim inquired as to why the big jump in payments to Savy in '68 and '69. Jones stated that he was conscious that they had in fact raised the payments to the \$10,000 per month level, and that he was somewhat surprised that at the same time another \$5,000 was going to one of the other Savy companies, but that whereas this had surprised him somewhat, he did not think that it was necessarily unusual.

Mr. Jones stated that he would have to review his file to attempt to refresh himself as to any other reasons why there was a big jump in payments in '68 and '69 - nothing was readily apparent at this time. He did recall that he felt it was about this time that there was a big increase in general Northrop activity in Europe, particularly with respect to the FSE, the 530, and the Cobra programs.

4. The total payments to Savy were reviewed briefly. Jones stated that he felt the use of Savy as a conduit was abnormal insofar as the Corporation was concerned, that it was a loose arrangement, but that this was loose by intention and it was done this way on purpose. He stated he was glad he did not know everything with respect to the Savy funds.
5. He again stated as he had earlier in the discussions, that he had not discussed personally with Savy the return of funds, other than the \$94,000 return in late '72, which he discussed with Savy after the fact. He stated that Savy was concerned about this transaction, as was he. Crim inquired as to why only \$94,000 was returned out of the \$120,000 originally given Savy, but Jones responded that he was not sure and that this question should be asked of Allen.

Crim inquired as to what Jones had discussed before the Grand Jury, and whether or not they had been told anything that we had not been told. Jones recounted that he had discussed the "window" concept, the general arrangements with Savy with respect to funding back of monies for political commitments, etc. He stated that he did not know of any facts that had been given them that had not been recapped for our purposes. He pointed out that the majority of the time with the Grand Jury was reviewing the chronology which had been prepared beforehand, and which has previously been given to us during the conduct of the investigatory procedures.

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Jones summarized once again his basic contention that he felt the use of Savy in this fashion was not necessarily bad, and that he felt it was much better than through the use of suppliers or employees. He stated he did not want to involve other officers in this Savy arrangement, and that really only he and Allen knew of the Savy transactions, with Allen being the key contact. He stated that he was aware that Savy was to be used to some degree for this political commitment work, and that he (Jones) did in fact, want a fund which was not on the books to be used in what his mind was in "the best interest of the Company."

Crim inquired as to why Jones didn't take money back from the Committee to Reelect the President when they offered. Jones stated that he was convinced that he could take care of this particular contribution by making it personal in nature rather than part of the Savy fund. He was convinced that once he did in fact give his own money and had the other officers participate, that this ~~the~~ deal was "all right." He stated that he did not want any publicity at this time, and was very concerned about the people within the Committee to Reelect the President, and their apparent lack of organization, general disarray, etc. He stated that he felt the back dating of the documents by he and the other officers was really just to straighten out the contribution, and that this was in his mind a "accounting made right in time." Crim inquired as to why Jones used DeFrancis in his meetings with the Committee to Reelect the President. Jones stated that DeFrancis was a well known attorney and a consultant in Washington, D.C., and that Jones wanted more insight on facts to help him understand the Committee to Reelect the President's motives, method of operation, etc.

Crim inquired as to whether he believed Savy still had a value to the Company. Jones stated that he most certainly did, and that this was of continuing value, ~~and~~ that he would not want to cut off the Savy consulting relationship unless he definitely had to. He stated that he has, however, planned ahead slightly in the event that public opinion meant that he might have to cease dealing with Savy. He has apparently inquired as to the availability of other consultants in Europe, and has made some preliminary contact (through Northrop, S. A.).

Crim inquired into the Company known as The Economic and Development Corp. Jones stated that he had a number of years ago found that a similar organization existed at Lockheed, and he felt that it was a opportune way of developing business relationships and rapport in the foreign country. Jones stated that he had asked that it be formed, and that he had participated quite heavily in the structure of the Company. This had been set up by DeFrancis in 1967 and '68 and basically - as stated above - was patterned after the Lockheed predecessor. He stated that this Company was really used to "present" the product of Northrop. It was apparently a little more of a sales organization than most other agents or consultants abroad. He stated that this Company cannot commit Northrop, rather just acts as a sales agents, and as stated, presents the product. Northrop apparently put in \$200,000 to get

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this Company started, and has made continuing investments or payments since that time. The payments made vary with sales of the PSE. Apparently all of the officers of that Company are foreign people, and per Jones, are top people in the various countries.

Jones more or less summarized the meeting by saying that he was very anxious that we receive full cooperation from all people. He is concerned, as stated at the start of the meeting, as to the question of confidentiality, but that if the attorneys can resolve this question to everybody's satisfaction, he hopes that we can make fast progress.

Arrangements were made at the close of the meeting to talk to Mr. Savy in Paris. Mr. Savy could not be reached today however, and attempts will be made to contact him on the morning of June 26.

With this, the meeting adjourned, with a statement by Crim that as we had other questions, we would want to talk to Jones again, and hope that he would be on call. He stated that he most certainly would, and this was reiterated by his counsel.

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SCHEDULE OF AMOUNTS PAID TO AND
RECEIVED FROM WILLIAM A. SAVY BY NORTHIROP CORPORATION

Payments by Northrop:

Year	Payee	Amount	Comments
1961	Wilco Holding	\$ C,000	2 mos. @ \$4000/mo.
1962	Wilco Holding	48,000	12 mos. @ \$4000/mo.
1963	Wilco S.A.	13,174	1 mo. @ \$4000; 11 @ \$834/mo.
1964	Wilco S.A.	26,088	7 mos. @ \$2834/mo; 5 mos. @ \$1250/mo.
1965	Wilco S.A.	15,000	12 mos. @ \$1250/mo.
1966	Wilco S.A.	26,250	3 mos. @ \$1250/mo; 9 mos. @ \$2500/mo.
1967	Wilco S.A.	10,008	12 mos. @ \$834/mo.
1968	Wilco S.A.	15,668	2 mos. @ \$834/mo; 10 mos. @ \$1400/mo.
1969	Wilco S.A.	49,200	3 mos. @ \$1400/mo; 9 mos. @ \$5000/mo.
1969	Euradvice	20,000	2 mos. @ \$10,000
1970	Wilco S.A.	60,000	12 mos. @ \$5000/mo.
1970	Euradvice	120,000	12 mos. @ \$10,000/mo.
1971	Wilco S.A.	60,000	12 mos. @ \$5000/mo.
1971	Euradvice	120,000	12 mos. @ \$10,000/mo.
1972	Wilco S.A.	60,000	12 mos. @ \$5,000/mo.
1972	Euradvice	180,000	12 mos. @ \$10,000 plus additional payment - \$60,000
1972	William A. Savy	60,000	1 payment
1973	Wilco S.A.	60,000	12 mos. @ \$5000/mo.
1973	Euradvice	120,000	12 mos. @ \$10,000/mo.
1974	Wilco S.A.	20,000	4 mos. @ \$5000/mo. (thru 4/30/74)
1974	Euradvice	40,000	4 mos. @ \$10,000/mo. (thru 4/30/74)

(1) 1124,888

Amounts returned to Northrop Corporation:

1972	Euradvice	(\$34,000)	Check dated December 26, 1972
1972	W. A. Savy	60,000	Check dated December 29, 1972

1072,888

(1)

WILCO 49,888

EURADVICE 60,000 - 24M

SAVY 60,000 - 60M

1124,888

332

200

120

24

26

75

ERNST & ERNST

ARCO TOWER
ATLANTIC RICHFIELD PLAZA
LOS ANGELES, CA. 90071

August 2, 1974

Mr. T. V. Jones, President
Northrop Corporation
1800 Century Park East
Los Angeles, California 90067

Dear Mr. Jones:

In accordance with our previous discussion we are pleased to enclose a list of questions seeking additional detail in connection with various transactions. Needless to say we want you to reply in as careful and detailed a manner as you can.

In connection with your answers we would like you to be as forthcoming as possible. For example, should any of your answers or any of the questions lead you into areas or subject matter not specifically covered by the question, we would hope you would expand your answer accordingly. We also would hope that in preparing your answers you do not feel that the limited answer usually given in adversary proceedings would be sufficient.

We have endeavored to make these questions clear and unambiguous, but if you have any questions or feel you need clarification on any of them please let us know. From time to time, as our knowledge increases we will undoubtedly have additional inquiries to send along to you.

Thank you for your cooperation.

Very truly yours,

Ray Criss
E. M. Criss
Partner

ENC:el

Copies to Mr. Clair Peck
Mr. B. H. DeVoe

QUESTIONS TO MR. T. V. JONES

8/1/74

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1. Listed below are the consultants, agents and representatives which, during the period since December 31, 1970, we understand you were responsible for employing and/or supervising. (i.e. you were the Northrop officer most familiar with their activities during that period).

William A. Savy (AKA: Euradvice, Wilco Holding, Wilco SA, etc.).
 Kermit Roosevelt & Associates, Inc.
 Frank J. DeFrancis
 J. Gerritsen
 [REDACTED]
 Herbert Weisbrod
 The Economic and Development Corporation
 Aviation Technical Services, Ltd.

If you were not, which Northrop officer was the most responsible and familiar with these persons and organizations?

2. Provide the names of any other persons or organizations falling into the category of Northrop's consultants, agents, or representatives who, during any of the period since December 31, 1970, should be added to the above list.
3. For each person or organization listed in 1 and 2 above (and for whose activities you have indicated you are most familiar), provide detailed information on the following matters relating to the nature and extent of their engagement by Northrop:
- What are such person's or organizations' qualifications?
 - By whom recommended? By whom employed by Northrop? When?
 - What services or duties have been and currently are performed (be reasonably specific)?
 - To whom does the person or organization report; how often; in what manner?
 - Give analysis of all payments (include accruals) made to or on behalf of the person or organization by Northrop. As to each amount, describe the nature of the duty or service covered thereby.
4. As to each person or organization covered by your answers to the above questions answer the following:
- Were any Northrop funds paid to the consultant, agent or representative returned to him by Northrop? In each case where this occurred, an explanation of the circumstances and amounts is requested.
 - Did the consultant, agent or representative use, or permit the use of, any Northrop funds at the direction of Northrop personnel for political contributions in the United States or abroad? If so, an explanation of the circumstances and amounts is requested.
 - Did the consultant, agent, or representative make any payments in the United States or abroad at the direction of Northrop personnel which were known or believed by you to be illegal under the applicable law? If so, an explanation of the circumstances and amounts is requested.
 - Are you aware of any action taken or any payments made by or at the direction of the consultant, agent or representative, in the United States or abroad, whether or not at the direction of Northrop personnel, which are illegal under the applicable law, or, if legal, of a character which might raise questions of propriety to which the attention of the Northrop Audit Committee should be directed? If so, an explanation of the circumstances and amounts is requested.

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5. Regarding transactions with William A. Savy (including Euradvice, Wilco Holding, Wilco SA, etc.) to whom Northrop appears to have disbursed approximately \$1,150,000, not including the \$108,150 which you personally sent to him in early 1973, provide the following specific additional comprehensive information (to the extent not fully covered in answers to the above questions):
 - a. Who in Northrop decided on the initial and all subsequent arrangements with Savy? Be specific as to each change in the arrangements and indicate why.
 - b. Who decided what amount was to be sent to Savy during each of the years 1961 to date?
 - c. Does Schedule B correctly display the payments by Northrop to Savy? Were there any others?
 - d. On what basis were the level of payments to Savy set each year?
 - e. We are informed that substantial amounts were returned by Savy to Northrop in currency. (as used herein "Northrop" includes Northrop personnel). We have also been informed that the minimum retainer to Savy was \$10,000 a year.
 - i. How much was returned to Northrop or its personnel?
 - ii. To whom were the returned amounts given? In what form?
 - iii. On what basis were these returned amounts established. In other words how did Northrop know Savy was returning the proper amount?
 - iv. If it were argued that Savy returned to Northrop all amounts above the \$10,000 retainer, could you prove this incorrect? Cite and describe all instances where you know or are aware of payments made by Savy from Northrop funds other than amounts returned to Northrop.
 - v. Do you know or have reason to believe that some type of record was maintained of the amounts returned by Savy to Northrop? If "yes" explain fully. Explain why not if your answer is "no."
 - f. We are informed that Euradvice, Wilco Holding, and Wilco SA have no significance except as entities designated by William A. Savy to receive the Northrop payments for his services. Is this correct? If it is, why were separate (and what appear to be different) explanations given for the services rendered by each? (See attached Schedule A).
 6. You have stated that between \$6,600 and \$7,000 was reimbursed to you in cash from the Savy funds to cover your political contributions during the period 1970-73. You have also stated that Northrop (through normal channels) reimbursed you \$5,500 covering your 1973 contributions. Other than these, have you:
 - a. Received any reimbursements since 1960 for political contributions or contributions for political-type purposes - either from Northrop directly, or indirectly from funds such as the Savy-originated funds, expense accounts, or by other means? If so, give dates, amounts, source of reimbursements and explanations.
 - b. Received any other reimbursements of expenses incurred by you, such as for travel, entertainment, etc., from non-recorded sources (e.g. the Savy funds, etc.)?
 7. You have stated that the Savy funds "have been used for the purpose of:
 - i. making political contributions, and
 - ii. the payment to Mr. DeFrancis,"

Do you know of, are you aware of, or do you have reason to believe that other payments or uses have been made of the Savy funds returned to Northrop? If "yes," cite all instances and explain.

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8. On February 29, 1972, a request for disbursement containing the signatures of Jones, Allen and Willson was initiated for \$120,000, to be paid (\$60,000 to Savy and \$60,000 to Euradvice) for consulting services related to "marketing and sale of Aircraft and related equipment in principal countries of Europe. These payments are in addition to present monthly payments." These disbursements were made on March 1, 1972. On December 26, 1972, Savy returned \$34,000, (Credit Suisse - Geneva) saying he was returning these funds as requested "which have not been committed." On December 29, 1972 \$60,000 was sent to Northrop from E. Gutzwiller & Cie - Basle drawn on the Chase Manhattan Bank. These amounts (totaling \$94,000) were deposited by Northrop in early 1973, and were said to be a return of a part of the \$120,000 referred to above.
- a. If the above statements are correct, why was only \$94,000 returned?
 - b. What happened to the \$26,000 (\$120,000 less \$94,000)?
 - c. What was the purpose of the \$120,000 sent to Savy (including Euradvice)?
 - d. How can we substantiate the fact that the \$94,000 is a return of a part of the \$120,000 and not a return of other monies due Northrop?
9. As to the \$108,150 which you paid Savy on January 25, 1973, it is our understanding that this was to cover the twenty (20) \$5,000 checks issued by Savy on Northrop's behalf to the Nixon campaign on March 8, 1972, plus \$8,150 in interest on the \$100,000 from March 1972 to January 1973.
- a. If this statement is correct, how does Northrop get the benefit of the interest paid to Savy since, if Item 8 above is said to be true, only Northrop would appear to have been deprived of the use of the \$100,000, not Savy?
 - b. It presently appears that: (i) there is no way to fully account for the funds given by Northrop to Savy (either by Northrop or by Savy), and (ii) the back-dated character of the various documents prepared to support the transactions surrounding the above \$100,000 Nixon campaign contribution make them unacceptable as audit evidence. Based on this situation, how is it possible for Northrop to be satisfied it received back the \$100,000 paid out of its funds in March 1972 for the Nixon campaign, when your repayment went to Savy?
 - c. Does Savy presently hold \$108,150 for your account?
10. How do you account for the fact that Savy has \$150,000 presently on hand belonging to Northrop? Show computations as well as explanations.
11. Do you believe, or do you suspect that any part of the Northrop funds which flowed between Northrop and Savy (including between Savy and Northrop) may have ultimately been used for other than Northrop purposes.
12. Schedule C attached displays what we are informed are disbursements from the Northrop funds returned by Savy in currency. Please review Schedule C and indicate any exceptions.

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13. As to the payment to Mr. DeFrancis made from the Savy funds (indicated by Mr. Allen to be \$60,000 in currency):
- For what purpose were these funds requested by DeFrancis?
 - What, to your knowledge, was the amount given; the date given; the manner in which the funds were delivered; by whom; and under whose instructions?
 - Why was currency used instead of a Northrop check? Was a receipt obtained?
 - Are you aware of the use to which these funds were ultimately put?
 - If you could not answer question d., please explain what you think or assume the \$60,000 in Northrop's currency was used for. Be explicit.
 - If the money was given to another Washington, D.C. consultant, what was his name? What service to Northrop did he perform?
14. Regarding Northrop transactions with DeFrancis, The Economic and Development Corporation (EDC), and any affiliated or associated persons or organizations, provide the following specific additional comprehensive information (to the extent not fully covered in answers to above questions):
- Who are the owners, officers and/or primary individuals involved in directing the affairs of EDC?
 - Of the amounts paid or accrued for EDC, how much will be paid? What specific service was performed in connection with each customer?
 - What was the origination of the procedure which allowed for certain payments to EDC being discretionary?
 - To your knowledge, what other affiliations does DeFrancis have which do business with Northrop? Describe each.
 - What other profit centers of Northrop have retained the services of DeFrancis or entities with which he was affiliated or associated in some way? Describe each.
 - Which direct work has DeFrancis (or entities with which he was affiliated or associated) done for Northrop in Indonesia and Italy?

20 August 1974

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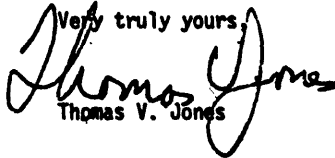
Mr. Raymond Crim
Ernst & Ernst
c/o Northrop Corporation
1800 Century Park East
Los Angeles, California 90067

Dear Mr. Crim:

I hand you herewith my responses to the fourteen questions addressed to me in your questionnaire dated August 1, 1974.

If you require any amplification or clarification of the responses, please do not hesitate to call upon me.

Very truly yours,



Thomas V. Jones

cc: Mr. C. L. Peck
Chairman, Audit Committee

Northrop Corporation

1800 Century Park East

Century City

Los Angeles, California 90067

EXHIBIT IV-H1

RESPONSE TO QUESTION 1

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1. With respect to William Savy, while his employment was approved by me, the actual engagement was handled by Mr. Allen. Supervision of his activities was by and through Mr. Allen, except in 1973 for that portion of his activities having to do with marketing research done for the Corporation in Belgium which was handled between Mr. Savy and myself directly.

With respect to Kermit Roosevelt and Associates, Inc., I was not responsible for engaging Kermit Roosevelt. Mr. C. Robert Gates, Vice President - International, is the Northrop officer most familiar with his activities. From time to time I have contacts with Kermit Roosevelt in respect to my relationships at the Chiefs of State level in the Middle East, Iran, Saudi Arabia, Jordan and Sudan. He usually precedes me on each of the trips to those countries to make arrangements and to be able to brief me on the situations. He accompanies me on the actual appointments with the chief executives in most cases, and many times remains behind to insure implementation of any agreements reached, both within the country and within the Northrop organization.

With respect to Aviation Technical Services, Ltd., I did not engage such organization nor am I the principal point of contact. I look to Mr. F. W. Lloyd, Senior Vice President - Operations, as the person I expect to be most knowledgeable at a corporate level as to this firm.

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RESPONSE TO QUESTION 2

2. The names of the other Northrop consultants, agents or representatives since December 31, 1970, which fall into the category of Question 1, are as follows:

Thomas C. Barger
Richard E. Horner
J. K. Northrop
Bernard A. Schriever
J. Grant Macdonnell

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RESPONSE TO QUESTION 3

3. a. Frank J. De Francis: Mr. De Francis is a graduate of Georgetown University Law School and has been practicing law in Washington, D. C., as a member of the bar for the last 23 years, specializing in international and corporate law. In this capacity, he has served many first-line U. S. and European companies, especially German. In addition, he has been the U. S. Legal Counsel to the Federal Republic of Germany through its Embassy in Washington for the past 20 years. He was Legal Counsel for the Italian Government for 4 years in the middle '60's, and at that time, to my knowledge, was the only legal representative of two major powers in Washington. He terminated his representation of Italy when a conflict of interest between Italy and Germany arose. He has represented the Argentine meat interests in the U. S. He has represented, through an industrial association, the German steel and chemical company interests concerned with the divestiture of assets in the United States during World War II for a value of over \$200 million.

J. Gerritsen: Mr. Gerritsen is a well-known and outstanding individual in Holland. He comes from a fine Dutch family, and before World War II was a member of the Olympic swimming team and the Dutch national soccer team. During the War, he was very active in the Dutch underground, with many decorations. He was captured by the Germans and was used in medical experiments which affected his health. He is a leader in an organization that preserves the close association between the Dutch underground leaders. His name was suggested as a communications link with Northrop by several of the highest level in the Dutch Government as a completely trusted individual.

General [REDACTED]: General [REDACTED] had an outstanding military career in the French Air Force and held many key-related diplomatic positions. As an example, he was French Air Attache to Germany at the outbreak of World War II. During and after World War II, he was Air Attache to such countries as Great Britain and the United States. He rose rapidly through the ranks of the French Air Force, becoming Chief of the French Tactical Air Command. At the time of the Suez crisis, he was responsible for deploying some 600 French aircraft to the Island of Cyprus. Later, he became Chief of Staff of the Air Force during the very important period of President de Gaulle's rise to power. General [REDACTED] speaks fluent French, English and German, and has been the author of several authoritative military, diplomatic and world affairs books. He has been a lecturer at Harvard University on geopolitical subjects, the U. S. Council of Foreign Relations and the Los Angeles World Affairs Council.

Hubert Weisbrod: Dr. Weisbrod, a Swiss citizen, has had a distinguished international legal career for 45 years. For many years he was a close advisor on the European scene to Mr. Fred Meuser when Mr. Meuser was Director for Europe, Africa and the Near East for Lockheed. Dr. Weisbrod

indicated channels to follow, whom to contact and how best to further the interests of Lockheed in Europe. Mr. Meuser gives credit for much of Lockheed's success for its sales of commercial and military aircraft, particularly of the unique and highly profitable export program of the F-104 Starfighter, to Dr. Weisbrod's expert counseling and behind the scenes activities. Practically all his efforts on behalf of Lockheed were done discreetly and indirectly and seldom did he appear in the open in Lockheed's behalf. 84

In view of his outstanding qualifications, his extensive high level contacts and his proven success in a highly sensitive area, his services were recommended by Mr. Meuser when Lockheed no longer had a fighter program competitive to Northrop's.

Economic and Development Corporation: The owners of the stock of the corporation are Andreas Froriep, Rudolf Kleiner and I. Isler. Each of these individuals as organizers and owners of the business are internationally respected as persons of the highest competence in the field of international business, especially Europe. For example, Dr. Froriep, the Chairman, is the European representative for the well-known U. S. investment advisory service, "American Institute for Economic Resources". The others are businessmen and bankers of broad and trusted ability.

Thomas C. Barger: Former petroleum company executive and engineer. With Arabian American Oil Company from 1937-1969 as geologist, government relations manager, Vice President, President, Chief Executive Officer, Chairman and Director, Consultant to Board of National Estimates and private corporations. Probably the leading Arabist in the United States, in or out of government, and is perhaps the leading expert on Saudi Arabia, having lived in that country for thirty years, much of it as the top man for ARAMCO. He has very close personal ties with the leaders of Saudi Arabia, including Faisal and his entire cabinet. He has the highest character and is greatly trusted by the Arabs.

Richard E. Horner: USAF officer 1940-1948, advancing to grade of Colonel. Director flight test engineering, Wright Field; Technical Director, AF Flight Test Center, Edwards AFB; Deputy Assistant Secretary of the Air Force; Assistant Secretary of the Air Force for Research and Development (1957-59); Associate Administrator, NASA (1959-1960); Senior Vice President, Technical, Northrop Corporation (1960-1970); President, E. F. Johnson Co., (1970-present). One of the country's leading technical managers in aeronautical and related fields. He is especially skilled in understanding the work of our government as it relates to weapon systems acquisition. He recently served as a Commissioner on the Commission on Government Procurement.

J. K. Northrop: Recognized as one of the world's foremost aircraft designers. Founder of Northrop Corporation in 1939 and served as President and Director until 1952. Designer and co-designer of many successful aircraft beginning with his initial work at Lockheed Aircraft Company in 1916. Recipient of many prestigious honors. 85

Bernard A. Schriever: USAF officer from 1933-1966, advancing to the rank of General. Held many positions of responsibility including Commander, AF Ballistic Missile Division; Commander, Air Research and Development Command; Commander, Air Force Systems Command. A consultant to government and industry since 1966. Director of Eastern Airlines, Emerson Electric, American Cement Corporation. Special consultant for business participation, Federal Urban Affairs Program. Probably the outstanding retired military technical and procurement officer since World War II. He is the individual given credit for the development of our major ballistic missile programs. Since leaving the service, he has involved himself with notable success as a consultant to private industry.

J. Grant Macdonnell: A Northrop Corporation employee for 28 years, holding such positions as Chief, Industrial Engineer; Chief, Administrative Engineer; Executive Advisor, Assistant to the President, Treasurer and Corporate Vice President and Comptroller from 1965-1971. Served as Chairman of a Study Group on the Commission on Government Procurement.

3. b. **Frank J. De Francis:** recommended by: James V. Holcombe and Glenn Lord; employed by Thomas V. Jones on August 29, 1967.

J. Gerritsen: recommended by: Several members of the highest levels of the Dutch Government; employed by Thomas V. Jones on August 7, 1967

[REDACTED] recommended by: Thomas V. Jones and Geoffrey Parsons of the Paris Office; employed by Thomas V. Jones on April 30, 1964.

H. Weisbrod: recommended by: Fred Meuser; employed by Thomas V. Jones on April 3, 1968.

Economic and Development Corporation: recommended by: Frank J. De Francis; employed by Thomas V. Jones on March 22, 1971.

Thomas Garger: recommended by: Stephen Bechtel, Sr.; employed by Thomas V. Jones on December 1, 1972.

Richard Horner: recommended by: Thomas V. Jones; employed by Thomas V. Jones on August 16, 1970. 86

J. K. Northrop: recommended by: Thomas V. Jones; employed by Thomas V. Jones on June 1, 1973.

Bernard A. Schriever: recommended by: Thomas V. Jones; employed by Thomas V. Jones on August 1, 1972.

J. Grant Macdonnell: recommended by: Thomas V. Jones; employed by Thomas V. Jones on April 1, 1971.

3. c. Frank J. De Francis: Mr. De Francis advises and counsels the Northrop Corporation in its international dealings around the world, but most specifically, the relationship with Western Germany. Because of the relationship of West Germany as a part of the European community and NATO, he has been concerned with other countries of NATO as they relate to activities in Germany or with programs that are common with Germany. His activities have centered on Northrop's efforts to establish a market for the F-5 aircraft in Germany and Europe, an improved version of the F-5, the F-5-21, which later became the F-5E, through efforts in Europe and the establishment of a -530 program through efforts in Germany and Europe.

Mr. De Francis was initially retained to fill a requirement for better access to and knowledge about the policy levels within the German Government. The need for this coverage became clear in 1966 when I was visited by a high official of the German Defense Department, accompanied by a member of the U. S. State Department, and they informed me that investigations in Germany on their procurement practices had indicated that Northrop was being put at a disadvantage over other American competitors through illegal activities and influences on the part of others. The purpose of the visit was to assure me that they had complete evidence of this having kept Northrop from obtaining business. I was not being visited to provide further evidence, but the purpose of the visit was to inform me that the Federal Republic of Germany did think highly of Northrop's capabilities and had a desire to do business with Northrop on a normal basis without prejudice, and if in the future I felt in any way that Northrop was being inhibited in its ability to compete in Germany, I was to inform the Staats Minister (Under Secretary of Defense), and they would take action to insure that fair treatment was given. During the visit they stated rather directly they were surprised that we were not more knowledgeable than we were in our relationships with the German Government in the procurement area; the implication being quite clear that our office in Germany wasn't doing its job. They further stated that we did have a very good rapport in the military and technical areas, but we seemed to lack knowledge of the other areas important to the acceptance of our offerings.

This visit merely highlighted a concern that we had had since 1959 when we lost out to the Lockheed Corporation -104 program when we were offering the -156 airplane which later became the F-5. In that case, I was told by the Chief of the Air Force and Secretary of Defense, Mr. Strauss, that they preferred the N-156 over the -104. However, the lack of broad support of our -156, both within the United States and Germany, made it difficult for them to make such a selection. After this visit, it seemed clear then, we had to reassess the way we approached our contacts in Germany, that our office in Germany which had a German national as head of it, an assistant, plus a German secretary, costing us around \$100,000 a year, wasn't doing the job for us. I discussed the need, then, for a new approach in Germany and better access across the board in our marketing meetings at Corporate level. 87

Some time in the summer of 1967, Mr. Glenn Lord, head of Corporate Marketing, and Jim Holcombe, head of our Washington Office, informed me that in discussing the problem between themselves, one of our employees who reported to Mr. Lord, Rick Delsasso, suggested to Mr. Lord that his brother-in-law, Mr. Frank De Francis, was the U. S. legal counsel to the Federal Republic of Germany through its embassy in Washington and that perhaps Mr. De Francis would have some suggestions as to what Northrop should do. I then met Mr. De Francis, and during the discussions, he said he was well aware of the problems with the -104 and -156 in his official capacity as counsel, and the Germans were very unhappy and felt they had been taken and he, Frank De Francis, felt they had. He had learned of the reputation of Northrop both through his brother-in-law and through the Germans. He suggested that while never before had he represented a U. S. client in Germany, in this case he felt that it was both in Northrop's and Germany's interest that he assist Northrop. Accordingly, he discussed this with officials within the Embassy and the Foreign Ministry in Germany and the Chancellor's Office and received their approval for working with Northrop on a consultant basis.

The first concern which Mr. De Francis became involved in was to examine all areas of our company's activities with Germany and to give advice as to changes in approach. These involved the selling of electronics equipment in the German Air Force, it involved our relationships with industry in Germany, and it was through Mr. De Francis, at this point he put us in touch with Siemens, which is the largest electronics company in the world outside of the United States--a first-line company. This particular relationship has resulted in a joint venture in Iran for a telecommunications system which has produced over \$200 million of activity for Northrop. It also led to our establishing relationships with Boelkow organization, which is the largest aircraft development activity in Germany.

The second order of business with Mr. De Francis was the establishment of a plan to market the F-5 aircraft within Germany and other countries of Europe. It was this activity that stimulated on Northrop's part the improved version of the F-5, the -21, which later became the F-5E. This successful F-5E program that had its origins in these discussions and plans has resulted in orders being taken for over 600 aircraft to

date, with a contract value to Northrop of well over a billion dollars, with expectancies for total sales of well over \$2 billion. 'Mr. De Francis' activities in this regard were centered on his working with the policy level people in Germany, especially the Foreign Ministry and later the Finance and Economics Ministries as to the benefits to be derived by their participation in this F-5 and F-5-21 program. 88

While the Germans went in another direction for political reasons in joining the British in another aircraft, the German interest in the -21 improved version was the stimulus that got the program started. Once it existed as a program within Northrop and the -21 prototype was flying, we were then in a position to interest the U. S. Government in the F-5E as an aircraft to provide to Southeast Asia as part of the withdrawal policy of the government and also as an instrument of foreign sales.

In the -530 program, it was through Mr. De Francis' consultations and direct efforts that the German Government became interested in participation in supporting as a matter of their own national policy the smaller countries of NATO, Belgium, Holland, etc., culminating in a letter offer being made (sensitive) from the German Minister to the Dutch Minister that the German Government would contribute \$50 million to the first phase of the development of the -530 if the Dutch and other countries chose it for re-equipment. Unfortunately, this offer (in 1971) was not able to be accepted by the Dutch, even though they had desired to go ahead with the -530, because the Dutch Government fell, and by the time the new Dutch Government was established and they wished Germany to reinstitute its offer, Germany, for internal policy reasons, was unable to do so.

Further, Mr. De Francis was very instrumental in working again with the Foreign and Economic Ministries within Germany in getting acceptance of the German support of the P-530 in development as part of the off-set discussions between the Federal Republic of Germany and the United States. Once again, for internal U. S. reasons, not German, this did not come to fruition. It did provide the basis for a development of the -530 package proposals to the other countries of NATO with lateral encouragement from Germany that had led to the recent decisions of Belgium, Holland, Norway and Denmark to make the decision within their parliaments to replace their aging -104's and has resulted in the recent visit to the United States of the multinational team that arrived in the United States in June to consider the selection of an American aircraft for the re-equipment of their air forces.

It was the development of the P-530 concept within Europe and the definitizing of it as our P-530 proposal that led to the airplane configuration that was selected by the U. S. Air Force in 1971, along with General Dynamics, for the YF-17 and YF-16 aircraft which are now flying at Edwards Air Force Base with the U. S. announced intention to procure 600 of these aircraft for U. S. Forces. The value of this program to Northrop within NATO and to third countries can amount to \$7 to \$15 billion over a period of 20 years. The work of Northrop in Europe, with the assistance of Mr. De Francis back in 1967, clearly was the genesis of this aircraft program offering such a potential to Northrop.

Mr. De Francis has worked with several parts of the Northrop organization from time to time. His primary means of communication is between himself and the President, most of them being by telephone, as much as an hour or so a day, formulating plans of action on the F-5 program and the -530 program, during periods of intense activity; then in carrying out such plans on his side within the German Government. 89

Mr. De Francis' capabilities are unique, providing to Northrop upon his hire the understanding of the Germany policy intentions important to defense programs and specifically the aircraft programs of interest to Northrop, and also the ability to analyze and develop a plan of action in consonance with those policies and U. S. policies; also an ability when required to hold first-hand discussions with the principals at a policy level involved within Germany. We thus achieved the balance in our relationships with Germany that was required. (Northrop had already achieved a higher level contact and acceptance within technical, military and defense department areas of Germany. Mr. De Francis did not concern himself with these areas.).

While Mr. De Francis did help from time to time with important other sales efforts in Iran, Indonesia and several other countries, his major contributions have been in the development of our important overseas aircraft programs that are key to Northrop's success. Also, Mr. De Francis' knowledge of the U. S. Government, especially the Congress that have the interest in U. S. overseas relationships, has been invaluable such that in one man we have both the ability to understand Germany and the European countries and, at the same time, have the ability to understand the U. S. relationship to those countries. This combination of capabilities has been valuable to Northrop in its work.

J. Gerritsen: Mr. Gerritsen was specifically asked to keep abreast of European economic and political conditions and developments. He acts as an independent contractor - not as agent or representative. He cannot make commitments for the company.

Although Mr. Gerritsen was asked to keep abreast of European activities, his main area of activity was to act as a trusted communications channel between the highest levels in the Dutch Government and the President of the Northrop Corporation. The Dutch, being very circumspect in their business dealings at the highest level, are very careful in their communications channels and do not like to use written means of communications in sensitive areas. An example of a sensitive area would be a suggestion that the President of Northrop or one of the Vice Presidents come to Holland to brief or present material. The Dutch reasons for this is that they are always conscious if they ask one contractor or one country to come in and discuss something, it is usually followed by requests for equal time by other companies or countries; hence, in suggesting the timeliness of a visit, they prefer to keep through a secure channel. On the other hand, information of happenings in the United States that may be important as they affect some Northrop relationship with Holland, such as the possible award of a supporting contract from the U. S. Government, they prefer again to have verbal communications back through a trusted channel.

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It was suggested by high government officials in Holland in 1967 that we establish an office in Amsterdam for this purpose. I suggested that this was expensive, and the level of activity in Holland did not warrant it, but could they, as an alternative, recommend an individual who might serve in a part-time capacity to provide this communication link as well as keep us abreast of overall happenings in Holland. It was for the purpose of providing confidential communications that Gerritsen was hired.

While Gerritsen's level of activity on behalf of Northrop has not been high, when he has been used either by Northrop or by the Dutch Government, it has been in extremely important and sensitive situations that have been highly beneficial to our business relationship in Holland. The Dutch have been the key country in Europe as far as leadership on Northrop's activities on the F-5 and -530 programs.

~~General~~ His primary responsibility is the analysis of all political economic and military situations in Europe, with changing relationships between principal countries and emphasis on defense-related programs. His secondary responsibility is the alerting of Northrop to business opportunities in the defense-related areas as they arise.

General ~~XXXXXX~~'s highly perceptive analyses have been very important in our understanding of the current and future trends of things in Europe as they affect our fundamental business in aircraft, electronics and communications. He continues to be a valuable source of understanding. He has usually been able to spot and identify changes in national policy as they affect defense months and even years ahead of others.

Hubert Weisbrod: Dr. Weisbrod has acted as a limited representative for the Northrop Corporation in the NATO area on the F-5 program, with disbursements to him intended to be a percentage related to the dollar value of F-5s sold to NATO countries, but not to exceed a limit of \$1 million. He has been advanced money on a continuing basis since May 20, 1968 to April 30, 1973.

The Weisbrod arrangement resulted from concern that while Northrop was being quite effective in presenting its product to the military and defense department levels with Holland, Belgium, Norway, Denmark and certain other NATO countries, our ability to have access to behind-the-scenes knowledge of what was happening at the political and economic levels, especially in the higher NATO and European community councils as a whole was seriously lacking. We needed the ability to obtain advice on how to best develop industrial relationships in each country that would not only allow the project to be implemented properly, but would yield the most attractive sales package from an overall economic, political and industrial point of view. In view of the complexity of relationships between the European Common Market countries of NATO and the Out Six, this was considered important. Also, it was felt necessary to have individuals with the highest credentials working behind the scenes in supporting Northrop's efforts.

It was suggested to the President of Northrop by several individuals at the highest levels within the European community that we consider hiring an individual who had been second in command of the highly successful Lockheed F-104 sales efforts in Europe and who had just left Lockheed's employ. He was Mr. Fred Meuser, a Dutchman who, prior to his joining Lockheed, had been very well connected as a businessman in Europe and in Holland. In my discussions with Mr. Meuser, he said he had intended to retire to St. Moritz, Switzerland, and continue acting as a consultant to Lockheed, but his strong recommendation to me was to employ the services of Weisbrod, who had the proper relationships and knowledge to be helpful. 91

Dr. Weisbrod has effectively acted in behalf of Northrop's interest over the period of time from 1965 through the middle of 1973 in a major way, and to a somewhat lesser extent, since that period. During this period, and largely as a result of Northrop's direct sales efforts, the F-5 was sold to the Dutch Government and almost sold to the Belgian Government and continuing sales to the Norwegians. He has been provided advance monies to continue his efforts in our behalf not only in the F-5 program, but also in the -530 program that was developing. The recent activities in our behalf as our efforts moved into the F-5E and the -530 which four countries, Denmark, Norway, Holland and Belgium, are playing the lead part in Europe. One complicating factor in paying Dr. Weisbrod under the terms of the agreement is the fact that while the Dutch purchased the F-5 as a result of Northrop's overall efforts, they purchased them from the Canadian Government as a result of a diplomatic power play by the Canadians to secure the business for themselves. As a result of this particular power play, Northrop is presently suing the Canadian Government. The actual resolutions of monies due under the Weisbrod contract can only be resolved after this litigation and other factors concerning follow-on spares are determined.

As a result of Dr. Weisbrod's activities, Northrop has had an unusual visibility into the highest councils of NATO, the Common Market community, and the many official and unofficial discussions between the highest officials in Europe as they affect the sale of the Northrop aircraft. It is believed that his activities have been one of the keys, for example, to the development of the possibility of the German financing of the initial development of the -530 by the German Government (highly confidential), which offer was made officially by the Germans, but could not be picked up by the Dutch because of the fall of their government. Also, most recently he has been most helpful in the attempt to get the four countries, Belgium, Holland, Norway, Denmark, to act in concert on the -104 replacement program and to the favorable acceptance of the P-530 as the proper solution to these countries.

The Economic and Development Corporation: The corporation was officially set up on March 22, 1971, in Zurich, Switzerland, for the purpose of acting on Northrop's behalf in the promotion and sale of the Northrop F-5 series of aircraft.

The purpose of the formation of the Economic and Development Corporation was to provide a means of highest level support of Northrop's interests and activities around the world, but especially Europe, in the support of the sale of the F-5 family of aircraft. This is deemed necessary to provide the broad and high level support at political, industrial and economic decision-making levels that are important to selection on any major governmental procurement. Northrop experience and the experience of others have indicated this is absolutely necessary to complement the direct technical and marketing efforts.

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It was felt that by providing this responsibility in the hands of one international organization, it could, in turn, employ those nationals in each country best suited to achieve results.

One of the underlying factors and conditions that was a prerequisite in the organization of the Economic and Development Corporation was that it remain a separate and independent organization. As a consequence, the methods and utilization of personnel on behalf of the corporation are so structured that it is able to advance the cause of Northrop in the sale of the International Fighter not only on the basis of confidentiality, but also uniquely independent of any Northrop connection. This principle provides a wide degree of flexibility in procuring the best people for the particular assignment at hand and, in many instances, enables the securing of persons who otherwise could not be directly involved for variant reasons with Northrop as such.

Thomas Barger: He has been employed as a consultant to Northrop for the past two years for the purpose of auditing our operations in Saudi from the standpoint of internal management and especially our relationships to the Saudis. As a result of his work in the past two years, he is extremely familiar with Northrop's operations in the Arab world and has made several lengthy trips to Saudi Arabia in support of Northrop activities.

Richard Horner: As a member of the Aircraft Division Strategy Council he advises on all aspects of our current aircraft programs, with special emphasis on consulting on the programs themselves, marketing strategy for each, and analysis of progress being made. He also consults with me on weapon systems acquisition developments of the government and because of his special knowledge in this area is extremely helpful to me and my staff in our keeping abreast of and properly interpreting proposed or new government procurement policies and trends.

J. K. Northrop: Because of his long and intimate knowledge of Northrop and his renown as an aircraft designer, he is in a unique position to consult with me and the Aircraft Division as to current and future programs. He frequently visits the plant and is a remarkably fine ambassador for Northrop in many areas.

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Bernard Schriever: In addition to his consulting as a member of the Aircraft Division Strategy Council, General Schriever has been most useful as a consultant to Northrop in the areas of long range planning and our marketing planning for major weapon systems. In addition, he frequently discusses with me and my staff specific areas of opportunity in other business areas which he feels are compatible with our business and management objectives. By virtue of his distinguished Air Force career and his current wide interests he is able to provide a perspective and advice which is extremely valuable in our long range planning.

J. Grant Macdonnell: Mr. Macdonnell is on an "on call" consulting basis and paid only when requested to work for Northrop. There has only been one occasion when he was employed as a consultant. This was to provide his services as a "loaned executive" as a Study Group Chairman for the Commission on Government Procurement. Many companies and government agencies were asked to provide such staffing for the Commission and Northrop responded by providing the services of Mr. Macdonnell. He reported directly to the Staff Director and Chairman and his activities did not pertain to Northrop operations. Since the Commission finished its work, Mr. Macdonnell has not been used as a consultant and it is not planned to use him in any way in the future.

3. d. Frank De Francis: Reports from time to time to other members of the corporation, but primarily to me. Reports verbally on an average of once or twice a week, except during periods of heavy activity when he reports daily as the circumstances warrant for as much as an hour a day on the telephone. 94

J. Gerritsen: Reports to me. Verbally as often as circumstances warrant.

[REDACTED]: Reports to me - normally in writing on an average of once a month. In addition reports to the Paris Office as requested and as circumstances warrant.

Hubert Weisbrod: Reports to me as necessary through Fred Meuser, verbally and in writing.

The Economic and Development Corporation: Reports to me through Frank De Francis - verbally, perhaps as little as once a month or so, except during periods of heavy activity when reports are more frequent and as circumstances warrant.

Thomas Barger: Reports to me and to all levels of the corporation as situation dictates - verbally throughout the corporation as often as once a week.

Richard Horner: Reports to me and members of the Aircraft Division as a member of the Aircraft Division Strategy Council - verbally, twice a month when he visits Aircraft Division. In addition, he telephones me on occasions when circumstances warrant.

J. K. Northrop: Reports to me - verbally as situation warrants.

Bernard A. Schriever: Reports to me and members of the Aircraft Division as a member of the Aircraft Division Strategy Council - verbally, twice a month when he visits Aircraft Division. In addition, he telephones or visits me on occasions when circumstances warrant.

J. Grant Macdonnell: Mr. Macdonnell is on an "on call" consulting basis and paid only when requested to work for Northrop. There has only been one occasion when he was employed as a consultant. This was to provide his services as a "loaned executive" as a Study Group Chairman for the Commission on Government Procurement. Many companies and government agencies were asked to provide such staffing for the Commission and Northrop responded by providing the services of

Mr. Macdonnell. He reported directly to the Staff Director and Chairman and his activities did not pertain to Northrop operations. Since the Commission finished its work, Mr. Macdonnell has not been used as a consultant and it is not planned to use him in any way in the future.

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3. e. Frank DeFrancis

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	<u>Amount</u>
1974 Payments:	
March 20, 1974	\$ 50,000
1973 Payments:	
January 5, 1973	\$ 25,000
March 20, 1973	25,000
September 20, 1973	50,000
September 4, 1973	10,000
	<u>\$110,000</u>
1972 Payments:	
January 5, 1972	\$ 25,000
March 20, 1972	25,000
	<u>\$ 50,000</u>
1971 Payments:	
January 12, 1971	\$ 25,000
March 19, 1971	25,000
December 1971	25,000
	<u>\$ 75,000</u>

J. Gerritsen

	<u>Amount</u>
1974 Payments:	
March 20, 1974	\$ 5,000
April 1, 1974	2,500
June 28, 1974	2,500
	<u>\$ 10,000</u>
1973 Payments:	
January 2, 1973	\$ 2,500
April 2, 1973	2,500
July 2, 1973	2,500
	<u>\$ 7,500</u>
1972 Payments:	
April 4, 1972	\$ 2,500
July 3, 1972	2,500
October 2, 1972	2,500
	<u>\$ 7,500</u>
1971 Payments:	
March 29, 1971	\$ 2,500
July 1971	2,500
September 1971	2,500
December 1971	2,500
	<u>\$ 10,000</u>

Hubert Maisbrod

97

	<u>Amount</u>
1974 Payments:	
February 6, 1974	\$ 1,500
April 29, 1974	1,500
	<u>\$ 3,000</u>
1973 Payments:	
February 2, 1973	\$ 1,500
April 26, 1973	1,500
July 20, 1973	1,500
October 23, 1973	1,500
	<u>\$ 6,000</u>
1972 Payments:	
January 25, 1972	\$ 1,500
April 25, 1972	1,500
August 3, 1972	1,500
October 25, 1972	1,500
	<u>\$ 6,000</u>
1971 Payments:	
February 8, 1971	\$ 1,500
August 1971	1,500
October 1971	1,500
	<u>\$ 4,500</u>

Hubert Maisbrod

	<u>Amount</u>
1973 Payments:	
August 28, 1973	<u>\$125,000</u>
1972 Payments:	
April 11, 1972	<u>\$125,000</u>
1971 Payments:	
February 18, 1971	<u>\$125,000</u>

Economic and Development Corporation

	<u>Amount</u>
1971 Payments:	
September 2, 1971	<u>\$200,000</u>

Thomas BargerAmount

1974 Payments:
 February 28, 1974 \$ 11,000

1972 Payments:
 May 16, 1972 \$ 500
 December 19, 1972 8,000
 \$ 8,500

98

Richard HornerAmount

1974 Payments:
 January 2, 1974 \$ 1,000
 February 4, 1974 1,000
 March 5, 1974 1,000
 April 1, 1974 1,000
 May 6, 1974 1,000
 June 3, 1974 1,000
 July 1, 1974 1,000
 August 1, 1974 500
 \$ 7,500

1973 Payments:
 January 2, 1973 \$ 1,000
 February 1, 1973 1,000
 March 1, 1973 1,000
 April 2, 1973 1,000
 May 1, 1973 1,000
 June 1, 1973 1,000
 July 2, 1973 1,000
 August 1, 1973 1,000
 September 4, 1973 1,000
 October 1, 1973 1,000
 November 1, 1973 1,000
 December 3, 1973 1,000
 \$ 12,000

1972 Payments:
 February 1, 1972 \$ 1,000
 March 1, 1972 1,000
 April 3, 1972 1,000
 May 1, 1972 1,000
 June 1, 1972 1,000
 July 3, 1972 1,000
 August 1, 1972 1,000
 September 1, 1972 1,000
 October 2, 1972 1,000
 November 1, 1972 1,000
 December 1, 1972 1,000
 \$ 11,000

Richard Horner (continued)

	<u>Amount</u>
1971 Payments:	
January 29, 1971	\$ 1,000
March 1, 1971	1,000
April 1, 1971	1,000
May 3, 1971	1,000
June 1971	1,000
July 1971	1,000
August 1971	500
September 1971	2,500
November 1971	1,000
December 1971	2,000
	<u>\$ 12,000</u>

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John Northrop

	<u>Amount</u>
1974 Payments:	
January 2, 1974	\$ 1,000
February 4, 1974	1,000
March 5, 1974	1,000
April 1, 1974	1,000
May 6, 1974	1,000
June 3, 1974	1,000
July 1, 1974	1,000
August 1, 1974	1,000
	<u>\$ 8,000</u>

1973 Payments:	
June 22, 1973	\$ 1,000
August 6, 1973	2,000
September 4, 1973	1,000
October 15, 1973	1,000
November 1, 1973	1,000
December 3, 1973	1,000
	<u>\$ 7,000</u>

Bernard Schriever

	<u>Amount</u>
1974 Payments:	
January 10, 1974	\$ 1,800
February 27, 1974	1,200
March 27, 1974	600
May 30, 1974	2,400
June 20, 1974	1,800
	<u>\$ 7,800</u>

Bernard Schriever (continued)

100

	<u>Amount</u>
1973 Payments:	
February 23, 1973	\$ 5,400
March 26, 1973	1,500
April 23, 1973	1,200
June 1, 1973	1,200
June 18, 1973	1,200
July 31, 1973	1,200
August 14, 1973	1,200
October 25, 1973	1,200
	<u>\$ 14,100</u>

1974 Payments:	
January 10, 1974	\$ 1,800

J. Grant Macdonnell

	<u>Amount</u>
1972 Payments:	
January 17, 1972	\$ 1,000
February 3, 1972	2,063
July 6, 1972	500
	<u>\$ 3,563</u>

1971 Payments:	
May 1, 1971	\$ 2,375
July 1971	2,500
July 1971	2,250
August 1971	2,313
September 1971	2,625
October 1971	2,125
November 1971	2,625
December 1971	2,375
December 1971	1,000
	<u>\$ 20,188</u>

With respect to the nature of the duty or service covered by the above payments, please refer to 3. c.

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RESPONSE TO QUESTION 4

4. a. Not to my knowledge.

4. b. Not to my knowledge.

4. c. Not to my knowledge.

4. d. No.

RESPONSE TO QUESTION 5

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5. a. Mr. Savy was engaged by Mr. James Allen on November 14, 1961, after having been recommended to Mr. Allen by Mr. Stanley Simon and after Mr. Allen had interviewed Mr. Savy in Europe and made positive recommendations to Mr. Jones who approved.
 5. b. The amount that was sent to Mr. Savy at the initial arrangement was established after discussions between Mr. Allen and Mr. Jones, and the subsequent changes were made by Mr. Allen or by Mr. Allen after consultation with Mr. Jones as to the amounts required. See Attachment A.
 5. c. To the best of my knowledge, Schedule B reflects the payments made by Northrop to Savy. I do not know of any other payments by Northrop to Savy.
 5. d. By Mr. Allen, usually after consultation with Mr. Jones. (See b above)
 5. e. (i) I do not know.
 - (ii) To James Allen. It is my understanding the amounts were returned in cash.
 - (iii) I do not know.
 - (iv) No, I cannot prove it incorrect. However, I believe it would be incorrect because Mr. Savy did provide from time to time substantial information important to our marketing efforts, the collection of which I would normally expect to be obtainable after a great deal of specific work that would have a considerably higher cost than the \$10,000 retainer. I have no knowledge of payments made by Savy from Northrop funds other than amounts returned to Northrop.
 - (v) No. The fund was specifically set up with the intent that records would not be kept.
 5. f. I do not know whether these organizations existed prior to Northrop's relationship with William Savy or not. At the time Schedule A was prepared by our Corporate legal staff, they were under the impression that Euradvice and Wilco were separate organizations with separate ownership inasmuch as payments had been made in the name of each. Schedule A was prepared to substantiate our claim for allowance by the government of such payments under our contracts with the government.

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RESPONSE TO QUESTION 6.

6. a. The records kept by my secretary indicate that \$8,000 was received from the Savy fund during the 1960-1969 time period. This amount was received in increments as follows:
- Kuchel for Senator - \$250.00 (partial reimbursement for personal contribution on 2 November 1962)
 - Mansfield Senatorial Campaign Committee - \$250.00 (reimbursement for personal contribution on 30 January 1964)
 - Brian P. Leeb, Treasurer (Johnson & Humphrey) - \$1,000.00 (reimbursement for personal contribution on 7 October 1964)
 - Johnson for President Committee - \$1,000.00 (reimbursement for personal contribution on 19 October 1964)
 - Committee to Re-elect Senator Richard B. Russell - \$1,000.00 (reimbursement for personal contribution on 17 March 1966)
 - United Republican Finance Committee - \$1,000.00 (reimbursement for personal contribution on 21 October 1968)
 - United Republican Finance Committee - \$1,500.00 (reimbursement for personal contribution on 9 May 1969)
 - Senator Murphy Dinner Committee - \$2,000.00 (reimbursement for personal contribution on 2 September 1969)

6. b. No.

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RESPONSE TO QUESTION 7

7. No.

RESPONSE TO QUESTION 8

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- 8. a. I do not have first-hand knowledge. Mr. Savy, in his letter dated December 26, 1972 to Mr. Allen stated that "I have made commitments which I may be called upon to honor at any time to a total of \$26,000. Accordingly, I think it only proper that I keep this \$26,000 here and return \$34,000 for which there are no commitments as yet." Later, on April 19, 1974, Mr. Savy told me that he still held the \$26,000.
- 8. b. It is my understanding that Mr. Savy still holds it.
- 8. c. The purpose was to provide money to cover the \$100,000 remitted in checks to be delivered to the campaign committee.
- 8. d. I suggest that substantiation exists in Savy's letter of December 26, 1972, addressed to Mr. Allen and in the letter dated December 29, 1972, from Euradvice to Mr. Willson.

RESPONSE TO QUESTION 9

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9. a. In attempting to answer Question 9, conjecture must be used in the absence of specific information from Mr. Savy. I do not know what Mr. Savy did, but in the interest of being responsive to the questions, I might offer the following:

It appears that the funds for the \$100,000 in checks for the contribution could have been produced from the following sources:

- (i) That \$100,000 out of the \$120,000 sent to Savy in February 1972 was deposited to Mr. Savy's personal account and the checks written.
- (ii) Another possibility is that Mr. Savy could have retained the \$120,000 in Northrop's account and used this as collateral in providing the \$100,000 for campaign contributions from his own personal funds.

If case (i) occurred, Northrop funds in Savy's hands could have been used to provide the \$100,000 in checks; thus, the interest payment for the use of funds would appear to properly belong to Northrop and should be considered as additional funds held by Savy for Northrop. If case (ii) occurred, where the \$120,000 received was not used directly, but provided collateral for the writing of checks from Mr. Savy's personal account, it appears that Mr. Savy could claim the interest payments were due him.

It seems the only way to clarify this question as to who should retain the interest payment is by learning from Mr. Savy how he treated the transaction.

9. b. It appears that whether possibility (i) or (ii) in 9. a. occurred, the \$120,000 was involved either directly as the source of funds or indirectly as collateral. Thus, the provable return of the \$100,000, plus interest, to Savy and the provable return of the \$120,000 (\$94,000 in cash, plus \$26,000 identified by Mr. Savy as being held for the account of Northrop) establishes that Northrop received back the \$100,000.

9. c. No.

RESPONSE TO QUESTION 10

10. I have no way of accounting for what Savy presently has on hand.

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RESPONSE TO QUESTION 11

11. No.

RESPONSE TO QUESTION 12.

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12. With regard to Schedule C, page two, it is indicated that contributions were made by me to the Nixon Campaign in 1968 for which I was reimbursed in the amount of \$6,000. My own check records indicate that I made a personal contribution in the sum of \$2,000 on 17 September 1968 to the Nixon for President Committee for which I was not reimbursed. I did, however, receive reimbursement in the amount of \$1,000 for a contribution made to the United Republican Finance Committee on 21 October 1968. My secretary's records indicate that I received a total reimbursement from 1962-1968 in the amount of \$4,500.

During 1969, I received reimbursement in the amount of \$3,500, according to my secretary's records.

RESPONSE TO QUESTION 13.

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13. a. I was told by Mr. Allen some time in early May 1974 that he had provided Mr. DeFrancis \$60,000 as a result of my request to do so when "Mr. DeFrancis had a need for the monies in his consulting activities on Northrop's behalf in Europe." I can recall Mr. DeFrancis bringing this requirement for additional effort in Europe to my attention, and I believe calling Mr. Allen on the phone from Washington, D.C. on my way to Europe to see if we couldn't satisfy Mr. DeFrancis' requirement. I have myself never provided funds to Mr. DeFrancis, and these are the only ones to my knowledge that have been provided other than through our normal recorded procedures. I do recall, however, at some point in time in 1971 or 1972 discussing with Mr. DeFrancis the possibility of Northrop's picking up part of the costs of a consultant that Mr. DeFrancis was going to hire to serve a charter airline operation of which he was Chairman of the Board. There is no record that this was done, nor do I recall that this was done.
- b. I have no personal knowledge of the amount given, nor of the date, nor of the manner in which the funds were delivered nor by whom. The funds were given on my instructions.
- c. Because currency in the form of the Savy fund was available. I have no knowledge whether a receipt was obtained.
- d. No.
- e. I assume without knowledge Mr. DeFrancis used the money in connection with his need for monies in his consulting activities on Northrop's behalf in Europe.
- f. I do not know that the money was given to another Washington, D.C. consultant. I merely remember that about this time I discussed with Mr. DeFrancis our picking up part of the costs of a consultant that Mr. DeFrancis was going to hire to serve a charter airline operation of which he was Chairman of the Board. I do not recall whether or not this was done.

RESPONSE TO QUESTION 14.

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14. a. Andreas Froriep, Rudolf Kleiner and I. Isler. To the best of my knowledge, these three are the owners and officers and the ones primarily involved in directing the affairs of EDC. It is my understanding that Mr. Froriep, Chairman and President, is the one who is the most active.
- b. \$200,000 have been paid to date as an advance against future commissions. As to how much will eventually be paid will depend upon analysis of the sales and completed deliveries country by country, and as determined by the application of the various conditions as set forth in the contract. We recognize our obligation to make payment of commission for direct sales and we will be getting together in the near future with EDC to determine the amounts equitably due to EDC for indirect sales. At the time of such conference, the specific service performed by EDC in connection with each customer will be discussed and an appropriate evaluation thereof made.
- c. The answer to question c. as to the origination of the procedure which allowed certain payments to EDC to be discretionary, is the following: In reaching the agreement in 1971, it was recognized that some sales of the F-5-21 would likely be through the Foreign Military procurement procedures of the U.S. Government, where the U.S. Government contracts for the aircraft from Northrop and the airplane is then "resold" to the foreign government. It was felt in this case there would be times in which EDC participation in making the sales would be required and proper. It was also envisioned that there would be situations in which outside help was not warranted. It was felt that this determination of compensation on these "indirect" sales could only be made on a case by case basis. In these cases of so-called "indirect" sales, the payment of commission would be made by Northrop if in its discretion, the exercise of which is conclusive, it seems such payment is warranted and is provided for under U.S. Defense Department "ASPR" regulations.
- d. None to my knowledge.
- e. Mr. DeFrancis consulted with us in a concentrated way over a period of several months in trying to help financing of an Iranian airport improvement through the Commodity Credit Corporation. It involved lending money to Iran in exchange for a shipment of soybeans. This arrangement did not work out because of higher priorities both within the CCC and the Iranian Government. This did not involve the retention of Mr. DeFrancis by any profit center.
- f. Beginning in 1967 and continuing off and on until 1973, Northrop explored the possibilities of establishing business relationships in Indonesia partially with the sale of aircraft and the rehabilitation of its airports, but mostly concentrated on obtaining a contract to design and construct an integrated telecommunications system through

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Northrop's subsidiary, Page Communications Engineers, Inc. The initial interest in Indonesia arose through Mr. DeFrancis. At the time Sukarno's government fell and the new government came in under Suharto, a representative of that government came to Washington, D.C. with the objective of establishing relationships with the U.S. Government and U.S. industry for the purpose of rebuilding Indonesia. Mr. DeFrancis brought this to Mr. Jones' attention and stated he had certain business associates who had been contacted by this man and wondered if Northrop were interested in exploring possibilities in Indonesia. I answered affirmatively, and as a result, I was visited by the representative of Suharto. It was determined that there was a possibility that we could work with them in several areas; military aircraft, airport renovation, and especially most interesting, establishment of an integrated telecommunications system for Indonesia, the latter project to be handled through Northrop's subsidiary, Page Communications Engineers. As a result of this beginning, Northrop aggressively pursued these opportunities over a period of several years with the direct assistance of Mr. DeFrancis. The effort in the communications area actually produced a contract which, if implemented, would have meant hundreds of millions of dollars to Northrop. After many months of intense negotiation, a final contract was prepared for the signature of the Indonesian Government, but it was not implemented because of the lack of Indonesian funds; also the difficulty of obtaining credit for an Indonesian project of this size and complexity because of the large amounts of money owed the Russians as a result of the previous government's relationships with that country. Mr. DeFrancis' efforts were across the board from exploring, financing for a number of years, including the setting up of a possible company to do the work, possible arrangement of a co-venture with German companies already operating in Indonesia, to the obtainment of funds from the Ex-Im Bank, Asian Development Bank and other sources.

From time to time since Mr. DeFrancis has been employed by Northrop, he has investigated and reported on (i) Italy's position with respect to its participation in the MRCA program, (ii) its interest and support of the Northrop P-530 program, (iii) interest and participation in the Lockheed Lancer program. Specifically, when we had heard through the rumor mill Lockheed had entered into an agreement with the Italian Government to support the Lockheed Lancer for the -104 replacement in Europe and also as an entry in the competition with the F-5E and P-530 in Turkey, I asked Mr. DeFrancis to specifically pin down what exactly was going on. As a result, he, with my approval, engaged for one time for the specific purpose, the services of an American who had extremely good relationships with the higher levels in Italy to proceed there with this objective in mind. As a result of this investigation we were able to obtain specific information of great importance.

ATTACHMENT ASchedule of payments and authorizations for Savy, Euradvice, and Wilco 113

1. Original letter dated November 14, 1961 signed by James Allen called for payments of \$4,000 per month to be paid to the Banque Internationale, Luxembourg, for the account of Wilco Holding, beginning with payments on November 1, 1961.
2. Letter from Charles C. Cilley, Treasurer of Northrop, to Chase Manhattan Bank, gave authorization described in Item 1.
3. Memorandum to C. C. Cilley from Mr. Allen dated 17 December 1962 changed the payment of \$4,000 monthly to Wilco, S.A. (Change of address only)
4. Item 3 was followed by a letter from C. C. Cilley to Chase Manhattan Bank to institute change, dated December 21, 1962.
5. Memorandum from James Allen to C. C. Cilley dated 23 January 1962 decreased payments to Wilco S.A. to \$834 per month beginning with the February 1 payment.
6. Letter dated 24 January 1963 from C. C. Cilley to Chase Manhattan Bank relayed the instructions to decrease the payment each month according to Mr. Allen's memorandum in Item 5.
7. Memorandum from Thomas V. Jones to C. C. Cilley dated 4 December 1963 asked that monthly payments to Wilco S.A. be increased to \$2,834 beginning January 1.
8. Letter from C. C. Cilley to Chase Manhattan Bank relaying instructions set forth in Item 7, letter dated 6 December 1963.
9. Memorandum from C. C. Cilley to Thomas V. Jones dated 29 June 1964 indicating he understood payments to Wilco, S.A. be reduced from \$2,834 to \$1,250 per month. Clarification requested.
10. Letter from James Allen to William Savy dated 13 July 1964 in which he states Mr. Jones told him that morning in view of reduced requirements in the near future, we will adjust the monthly remittance downward from \$2,834 to \$1,250 per month beginning with the August 1 payment.
11. Letter from C. C. Cilley to Chase Manhattan Bank dated 13 July 1964 instructed that monthly payments be reduced from \$2,834 to \$1,250 effective 1 August 1964.
12. Memorandum from Thomas V. Jones to C. C. Cilley dated 14 March 1966 indicating that payments to Wilco S.A. be increased to \$2,500 per month effective with April 1 payment.
14. Letter from James Allen to William Savy dated 25 March 1966 stating that in view of the increased tempo of operations abroad, monthly retainer will be increased to \$2,500 per month effective with the April 1 payment.
13. Letter from Charles C. Cilley to Chase Manhattan Bank instructing them to increase monthly transfer according to Item 12. 15 March 1966.

15. Letter from James Allen to William Savy dated 21 December 1966 stated that, after discussions with Mr. Jones, we came to a decision to reduce the monthly retainer to the basic rate of \$834 per month effective January 1.
16. Letter from C. C. Cilley to Chase Manhattan Bank dated 22 December 1966 amended instructions to decrease monthly transfer according to Item 15.
17. Memorandum from Thomas V. Jones to C. C. Cilley dated 6 February 1968 increasing monthly transfer of funds to Wilco S.A. from \$834 to \$1,400, effective March 1.
18. Letter from James Allen to William Savy dated 6 February 1968 stated that in view of the increased requirements, we are again increasing the monthly retainer to a rate of \$1,400 per month effective March 1.
19. Letter from C. C. Cilley to Chase Manhattan Bank dated 9 February 1968 making increase noted in Item 17.
20. Memorandum from Thomas V. Jones to James D. Willson dated 3 April 1969 increasing the monthly amount paid to Wilco S.A. from \$1,400 per month to \$5,000 monthly beginning with April, 1969.
21. Letter from James Allen to William Savy dated 3 April 1969 stating that monthly retainer would be increased to \$5,000 in view of the new level of activity in the matters he is handling for us, and the expectation that it will expand even further.
22. Letter from C. C. Cilley to Chase Manhattan Bank dated 8 April 1969 to implement instructions in Item 20.
23. Memorandum from James D. Willson to Juanita Schmidt dated October 27, 1969 instructing that effective November 1969 each month a check should be drawn in the amount of \$10,000 to be deposited in our Manufacturers Hanover Bank in New York. The bank is to be instructed to transmit this \$10,000 per month for Northrop's account to Euradvice, Basel, Switzerland.
24. Letter from Thomas V. Jones to William Savy dated 4 November 1969 stating that in addition to consulting services now being performed, we desire to have the benefit of services on certain international projects in which we are presently engaged and others which might develop in the future. We will look to you for special information, analysis, and guidance with respect to political, industrial, or technical developments that might affect our programs and projects in particular countries outside the United States. In consideration of these activities, we agree to a fee of \$10,000 per month.
25. Letter from J. D. Willson to Manufacturers Hanover Trust Co. dated October 29, 1969 implementing instructions for deposit and transfer of \$10,000 per month to be transmitted to Euradvice.

26. Memorandum from James Allen to Thomas V. Jones dated 28 February 1972, and concurred in by Mr. Jones, discussing the P-530 program and the importance of increased activity by William Savy. \$60,000 to be advanced to Euradvice to cover work he will do.
27. Wire to Chase Manhattan Bank from James D. Willson dated March 1, 1972 authorizing transfer of \$60,000 to William Savy.
28. Wire to Chase Manhattan Bank from James D. Willson dated March 1, 1972 authorizing transfer of \$60,000 to Euradvice.
29. Request for Disbursement signed by Thomas V. Jones and approved by James Allen and James D. Willson dated 29 February 1972 authorizing transfer of \$60,000 to Euradvice and \$60,000 to William Savy.
30. Letter from James Allen to Euradvice dated 11 December 1972 indicating we are in the process of preparing our year-end accounts for final audit and asking return of any uncommitted funds from the cash advances we sent you earlier in the year to cover possible commitments in connection with the P-530 program.
31. Letter from James Allen to William Savy dated 11 December 1972, same as Item 30.
32. Letter from William Savy to James Allen dated December 26, 1972 responding to above in which he states he has commitments which I may be called upon to honor at any time to a total of \$26,000, but enclosing a check payable to Northrop for \$34,000.
33. Letter from Euradvice to James D. Willson dated December 29, 1972 in which it is stated that \$60,000 is returned to Northrop Corporation because funds sent on March 3, 1972 were not needed.
34. Letter from James D. Willson to Chase Manhattan Bank dated 15 May 1974 rescinding instructions to make monthly payments to Wilco Holding.
35. Letter from James D. Willson to Manufacturers Hanover Trust Co. dated 15 May 1974 rescinding instructions to make monthly payments to William Savy.

KEY MEETINGS/ALLEN

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ERNSI & ERNST

LOS ANGELES

TO Northrop File

DATE June 27, 1974

FROM L. D. Gray *LDG*SUBJECT Meeting with James Allen
on 6/25/74

On the afternoon of June 25, commencing at 2:30, a meeting was held in the Northrop Corporate office with Mr. James Allen. In attendance were the following: James Allen; Jack Gold, his attorney; Ray Crim of Ernst & Ernst; Larry Gray of E&E; Dusty DeVos of Price Waterhouse; and Howard Willens of Wilmer, Cutler & Pickering.

The purpose of this meeting was to explore with Mr. Allen the special investigation requirements, to obtain some oral representations from him, and to hopefully answer certain questions that he or his attorney might have which might enable him to complete his written Narrations requested earlier. The meeting was started by Mr. Crim giving a brief overview as to what we deemed our special investigation to comprise, how we were attempting to go about the work, etc. Crim went on to recite how important we deemed the written Narration to be. This formed the groundwork from which the balance of the special investigation was to evolve. He pointed out that we felt it most prudent if we asked the Company to tell us all they knew before we started to dig in to the facts. This would enable us to somewhat "audit" their comments, and at the same time delve into those areas where follow-up was deemed necessary. Allen pointed out how difficult the Narration was, because of the general nature of the questions. He stated he was worried about others getting access to the facts for possible use against the Company. He thus was concerned in the same manner as Mr. Jones - namely that of investigation versus confidentiality. Gold also expressed some concern for the use of the term "illegal" or "improper." He felt this was a vagary that was difficult to assess. For example what one person might deem illegal may not be deemed illegal by another - such as one foreign country versus another. Crim acknowledged this confusion, but stated that the terms came originally from the Board of Directors' minutes and the SEC conferences, and we were just following this same vein. We pointed out that it was most important to lay forth as many facts as possible, and the final decision as to illegality or impropriety will thus then be made by the final decision making party - probably the Audit Committee.

Given this general background, Allen then proceeded to describe for us his understanding of the Savy agreement. He stated that as he first came aboard Northrop in the early 1950's, the Company found it necessary to obtain reliable intelligence for their aircraft and related product sales. They also found that they needed a thorough understanding of the problem of doing business abroad. Allen stated he knew of a gentleman from his earlier business connections, this man being Mr. Simon, and he contacted Simon for his input as to who they may

b
c/s

To Northrop File

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make contact with to ~~these~~ ^{these} endeavors. It was through Simon that he heard about Bill Savy. He then asked Simon that the next time Savy was in the U. S. he let Allen know in order that they may meet him and discuss possible business ventures. Allen stated that a short time later Savy did in fact come by and a meeting was arranged between he and T. V. Jones. A decision was then reached to use Savy for their consulting for intelligence work abroad. A letter agreement was entered into, and a basic retainer of \$10,000 per year was also agreed to per Allen. Allen stated that the original agreement was that the fee would go up if Savy became more active, and it was his understanding that the fee was to cover Savy's basic fee, his expenses, plus his use of any other sub-consultants. There was also agreed initially that the relationship between Northrop and Savy would be very confidential.

It was about at this same time, per Allen, that the Company realized that it must have political insight, ~~in-actives~~. They started to make some congressional contacts, and the idea came up "within a year or two after retaining Savy" that Savy might be groomed as a conduit of funds for these political purposes. Allen stated that there was more and more pressure at about this time that Northrop meet its political commitments, and they found they could no longer handle their commitments by personal contributions. They found that this was a problem, and it was discussed many times, with Allen pursuing and looking into what other companies did. He found out that others got funds a variety of ways, some of which were outside the U. S. It was concluded that Savy would be very useful and a very reliable source for Northrop to use in this manner. He thus began to bring certain surplus funds back with him to the U.S. In response to a question by Crim as to exactly when these funds started to come back, Allen replied that to the best of his recollection this would be in '63, or maybe to some small extent in 1962. Allen stated that the amounts of money coming back went up and down with Savy's activity and with the political needs. He stated that when budget times were tough at Northrop, often Savy was cut to the basic \$10,000 retainer, and during these periods of time, he performed little work of a significant nature for Northrop. The confidential relationship between Savy and Northrop became even more so once they got into this ~~period~~ of funds. A decision was made ~~per~~ by to keep no records as to what was changing hands.

Allen recounted that early in the political arena, a \$5,000 contribution was a large contribution. He went on to state that it was very difficult for a corporation such as Northrop to say no to requests of this nature. He further stated that in the earlier years contributions were heavy to all political parties, including Johnson, state Republicans, state Democrats, etc. The first real large requests started to come in with the Nixon campaigns. Allen felt that from approximately 1970 forward, he has much better recollection as to amounts exchanging hands, inasmuch as the amounts were fairly large in relation to the earlier activity.

Crim attempted to determine if an fact it was possible to ascertain if or what percentage over the basic Savy retainer might come back. He also questioned

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how the Company determined if it received back everything it had coming. Allen's reply was that he relied on Savy, and that whatever Savy brought back was accepted by him. He stated he never kept records in these earlier years, and to the best of his knowledge there was no set formula or method for determining what might come back.

Crim inquired as to what was the meaning or distinction between various company names employed by Savy. Allen replied that it is his understanding that this was for tax purposes of Savy. He stated that where the payments went (to which company) was more or less at Savy's direction. In response to a question by Mr. DeVos as to how fees might be arrived at periodically - specifically did Northrop tell Savy what the new fee arrangement was going to be, or did Savy ask Northrop for increases, etc. - Allen replied that both these methods existed over the years. He stated that the Company never received much in the form of written reports from Savy, but that Savy preferred to give his information in person or by telephone. Allen stated that these reports normally were given directly to him by Savy, and he then normally orally conveyed the reports to Mr. Jones. In response to a question, Allen stated that he was not sure how much he talked to Savy versus how much Savy talked to Jones directly. He did feel, however - particularly during the early part of the agreement - that most contacts were Savy and Allen. He also stated that there was no formal time table for the meetings, and that they were on a more or less as needed basis.

In response to questions by Crim as to how he could accept the fact that whatever monies Savy turned over were all they had coming, or to use Crim's terms "how did he (Allen) get comfortable," Allen replied that he was comfortable because Savy was doing the job for them. He felt that the amounts going to Savy were reasonable, since Savy normally had the right answers and assisted Northrop immeasurably. He also said that he felt comfortable because some monies did come back. Thus whether or not it was \$10,000 or \$20,000, something was better than nothing. In response to a question as to why initially Savy was paid \$4,000 a month, Allen had no real answer. Crim tried to pursue the theory that perhaps the difference between the \$4,000 a month and the basic \$10,000 annual retainer might have all come back to form the Savy fund. Allen stated that this was not the case, and whereas he had no real feel for what might have come back early in the agreement, he didn't think that in '62 and '63 the amount returned could be any "more than \$10,000."

In response to further probing by Crim as to whether or not Savy was to be used from the very start as a conduit, Allen stated that at first this was not part of the agreement. He stated however that probably within the second year of the Savy agreement, they reached agreement that he would "send back what he didn't use." Allen again reiterated that this was not a predetermined amount. Crim inquired as to whether or not Savy had ever informed Allen as to how much excess monies he had on hand, to which Allen replied no.

Crim asked when Allen had last talked to Savy, the answer being "some months ago." He stated that at that time ~~most~~ most of the contact with Savy was being made by T. V. Jones, and that ~~some time ago~~ a call had come in to

this particular time

Jones, who was out of town, and Allen took the call. He stated that he took a very "carefully worded message," Allen indicating that perhaps it had been written beforehand and merely read over the telephone. He told Savy that Jones was going to be back in the office tomorrow, but that upon his return, Allen understands that Jones would not take the call, but Allen did not know why. In response to a question as to when Allen had last talked to Simon, the answer was again a "couple of months ago." The schedule of payments to Savy was handed out, and discussion then followed with respect to amounts shown thereon. One of the first questions was what occurred in 1969 that necessitated a raise in the monthly amounts to the \$15,000 level. Allen's answer to this question was three things to the best of his recollection: 1) Major increase in FSE sales in Europe; 2) The expansion of the Cobra program; 3) The upcoming Presidential campaign. Another question was asked as to whether, in 1966, the increase from \$1,250 a month to \$2,500 a month was because of the elections in those years. Allen could not conclude anything in this regard. A third question was why in '67 and '68 they dropped to the minimum payments. Per Allen's recollection, this was because of general belt tightening or budget cutting during this period of time.

Crim inquired as to why Savy only returned the \$94,000 in late 1972, rather than the full \$100,000 or \$120,000. Allen replied that Savy had \$26,000 in commitments, thus was asked to just return the difference. Crim inquired as to whether or not this \$94,000 was a fictitious number, designed to make the transaction look more proper than it was, Allen replied that this was not the case.

In reply to ~~the~~ number of questions, Allen replied that he had never made an accounting to T. V. Jones as to monies coming ~~to~~ Savy and the disposition thereof. He went on to state that he did not really consider this a "fund" as we kept referring to it, rather it was more just a flow of cash. The distinction in his mind was that he did not sit on a large sum of money normally, rather he usually had uses for it before monies ever came back from Savy. He stated he continually got requests for contributions, which he then accumulated and held in file, until such time as cash came from Savy and it was then used. Crim inquired as to how he as a business man and business leader could bring himself to do something of this magnitude, and work with absence of records, etc. Allen stated that he felt the Company had to do what they were doing, and someone had to be the person responsible for the funds and for the disposition, and that since he was asked to do it and it was necessary, it was his job and he did not question it further.

The questions then ran to what transactions he could recall as having run through the fund. A summary of these follows: 1) He had given cash at one times to Holmes Tuttle, a Republican fund raiser; 2) He had given cash to Gene Wyman at one time, a Democratic fund raiser; 3) He had given ~~the~~ the amount of \$50,000 to T. V. Jones. \$25,000 of this was given at one time at Jones' request, and was an attempt to split up a substantial amount of excess cash which had been building up. At a later time \$25,000 was given to Jones, when Kalmbach had shown up and requested ~~for~~ more funds. With respect to the latter \$25,000, Allen claims

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that he had been purposely accumulating such amount in a lump sum inasmuch as Jones had requested him to be prepared to turn over funds of this magnitude since he expected to need such an amount; 4) He stated that he had once given \$1,000 to a political ally in Washington D.C., and that he had obtained a receipt - the only receipt he ever recalled obtaining; 5) He had replenished his own account with certain disbursements made for political purposes. These were relatively small, and had to do with three matters; a) a \$500 (approximately) cost for renting a helicopter for a state candidate, b) the cost of \$500 (approximately) for a plane fare for the wife of a government official, c) costs to a lobbyist in Sacramento, which went on for a number of years; 6) He stated he had given cash as a replenishment for personal expenditures for certain officers. In response to a question as to which officers, he stated these included Willson and Lloyd, (the \$24,000 referred to in the Special Prosecutor's complaint) Bob Miller (now deceased). In response to a direct question as to whether monies had ever been given Douglas, Allen replied that he did not think so.

With respect to the last \$25,000 given to Jones as described above, Allen recalls that this pretty well depleted the fund. With respect to a question as to how much built up after that, he felt that it approximated \$24,000, which he then used in early 1974 to pay back the Lloyd and Wilson contributions.

In response to a question as to who knew about the Savy relationship, Allen replied that only he and T. V. Jones were involved.

Crim inquired as to Allen's knowledge of the \$3,900 which Jones had turned over to the Audit Committee some two weeks ago. Allen stated that he could not identify this amount, and he said that it perhaps was left over from another amount. He stated however that it was not normal practice to give Jones cash, unless to reimburse him for a known item, and thus he just could not add any insight into the \$3,900. He does not recall splitting up the fund into two parts as Jones stated was the case with this \$3,900.

In response to inquiries with respect to the Good Citizenship Committee, Allen stated that he in fact had been involved with this Committee for a number of years. He felt that it normally raised from 20 to 30 thousand dollars per fund raising endeavor. He stated he had recently resigned as chairman of the Committee, and felt that George Douglas had most of the data at this point. Internal audit has apparently done periodic audits of the fund, and Loren Odell was presently in process of doing a final audit. Crim inquired as to whether or not any funds from the Good Citizenship Committee were commingled with the Savy funds, but Allen stated they were definitely not, that very concise detailed records were retained on the Good Citizenship funds, and they were not commingled. Crim stated that someone had alluded to the fact that Good Citizenship Committee checks may have turned up on the records of the Committee to Reelect the President, to which Allen stated that this may well be since an individual giving to the Good Citizenship Committee could designate the ultimate recipient of his check.

For example, if someone gave \$500 and asked that it be given to the Committee to Reelect the President, a check on the Good Citizenship Committee would be so drawn.

Crim inquired as to the political activities of the Eastern Regional Office. Allen stated that he felt the people there were doing a very good job of monitoring the political scene, and that they were well attuned to what had to be done and where. He stated that he had in fact reimbursed them for certain expenditures, and ~~that~~ ^{from} his recollection of the magnitude of political funds disbursed by the Washington office, might run up to \$10,000 in election years, with approximately \$1,000 per year in non-election years.

Crim inquired as to whether or not we knew everything or had been told everything by Allen that he had passed on to other government agencies, such as the Grand Jury, etc. Allen's attorney stated that a very in-depth debriefing after the Grand Jury testimony was available, but that at the present time, this was a privileged document. Gold does not believe that there is anything contained therein which is new, and he will investigate the availability of this debriefing document for purposes of the investigatory procedures. He is to let us know within a week as to whether or not this document can be made available. He did state that the Grand Jury concentrated heavily on the 1972 Presidential campaign, and did not go much beyond that question.

Back to Savy for a few minutes, Crim inquired as to how often Allen talked to Savy. Allen stated that he would estimate that Savy came to the U.S. approximately six times a year, with Allen seeing him probably four of the six times. He stated that he perhaps talked to Savy maybe twelve times a year.

Crim inquired as to Allen's knowledge of the Economic Development Corporation. Allen replied that he did not know anything about this. Crim asked how well he knew De Francis, and what his relationship with De Francis had been. Allen replied that he did know him, and as stated above, had given him directly a large sum of money - some \$60,000. He stated he cannot pinpoint the date that this \$60,000 was given to De Francis, it was probably sometime in 1973 to the best of his recollection. Crim inquired as to how the cash to Savy was normally delivered. Allen replied that it was usually in \$100 bills, and that it normally be delivered to Allen in Savy's hotel room in New York, with Savy merely saying that this was the excess that he had, and would just hand it to Allen.

In response to a question from Crim as to what Allen's recollection is as to the total funds that may have come back from Savy over the years, Allen replied that it would probably approximate some \$300,000. This figure does not include the \$94,000 returned to the Corporation. He inquired whether, had prepared any sort of summary recounting his recollections, which perhaps could be turned over to us. He stated that he had made numerous attempts to do this, but nothing was completely tied together in his own mind. His attorney stated that they were working on this project, and that they hoped to be able to come up with a final summation to the best of Allen's knowledge, which would then be provided to us.

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We attempted to summarize briefly the magnitude of the known disbursements by Allen, which are summarized as follows:

\$50,000	to T. V. Jones
60,000	to DeFrancis
24,000	to Lloyd and Willson
12,000	(app.) replenishment to Allen
25,000	(app.) to Tuttle and Wyman
5,000	(app.) to Eastern Regional Office

Crim inquired as to if Allen knew any reason why, when the Committee to Reelect the President offered to give back the \$100,000, why Jones did not accept it. Allen replied that he would guess that it was, because T. V. thought it was good money in his own mind, and just wasn't about to admit at that time that it was Corporate funds.

In response to more questions on De Francis, Allen recounted that he did not receive any reports from De Francis as to work done, that he did, in fact, give the \$60,000 to De Francis, but that he does not know what it was used for. He said he perhaps saw De Francis one or two times a year, where they more or less compared notes, and were generally in agreement as to various political strategies.

A number of topics were then discussed very briefly, which, summarized as follows: 1) Allen stated that his personal bank statements were ready for our review; 2) He stated that he did not know of any other agency here at Corporate office anything like Savy. He does know of a man working for the Eastern Regional office, reporting to Holcomb, by the name of Sommer. This man perhaps is a political contact; 3) Crim asked if Allen knew Souki, to which Allen replied that he was a workman, and not a big newsmaker; 4) Allen stated that they had discussed very early in the game, whether or not to use suppliers for political purposes, and they decided that they would not do this; 5) They also discussed early in the game the use of employees, and decided again that this was not the thing to do - other than the Good Citizenship Committee; 6) Crim inquired as to whether Allen knew the following four individuals: Jeffrey Parsons - per Allen, he runs the Paris office; Les Daily - per Allen, he works at Corporate office; de Ravenal - per Allen, he works in the Paris office; Colon - per Allen, he works in the Rome office. (Note: - these four individuals are named in the Springer suit). 7) Allen stated that a rule which had been applied fairly consistently, was that no one was to talk to a Congressman unless it was cleared with Allen; 8) Allen stated that some uses of facilities for political purposes were routed through him, although it would not necessarily be all uses; 9) In response to a question by Crim as to whether the Company plane had been used by Stans, Allen replied that he did not know of this use; 10) In response to a question if he knew if the plane had been used during the 1972 Presidential campaign, Allen replied that he knew of no such use; 11) Crim inquired as to Allen's knowledge of the hunting lodge, Allen replied that he had never been there and he had never reimbursed anybody for the use of the lodge; 12) Crim inquired as to Allen's knowledge of the apartment maintained in Washington and what it is used for, and Allen replied that he believed it was used almost exclusively by T. V. Jones.

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With this the meeting was brought to a conclusion. Mr. Gold stated that he thought that Allen would now be in a much better position to do a in-depth and creditable job on filling out his written Narration. They felt by having had a chance to discuss certain of these points, that they now have a better understanding as to what we really need, and how they might best respond to the questions. Crim recounted that it was important that we get this Narration, and that we undoubtedly would want to have further personal interviews with Mr. Allen. Both Mr. Allen and Mr. Gold stated that they would be more than willing to hold these further discussions as necessary. A copy of the Questionnaire which had been developed for the special investigation, was to be delivered to Mr. Allen the next morning. With that, the meeting adjourned at approximately 4:30 p.m.

(Note: Two copies of the Questionnaire were, in fact, delivered to Mr. Allen on the morning of June 26th. Some one hour later, Mr. Allen called me and asked if he could have six more copies of the Questionnaire, stating that he felt it would expedite things, and that he was in the process of working on it. Six additional copies were delivered to Mr. Allen that same day).

ERNST & ERNST

LOS ANGELES

TO	Northrop File	DATE	September 11, 1974
FROM	Larry D. Gray <i>L.D. Gray</i>	SUBJECT	Interview with Manny Gonzalez of Sept. 10, 1974

At 8:00 a.m. at the Aircraft Division an interview was conducted of Manny Gonzalez by myself and Jim Blair of E&E and Falkenhagen and Francisco of PW. Gonzalez had earlier been met with briefly by both Chad Dreier and Jim Blair during the conduct of the investigation, and he had at that time answered certain general questions. The purpose of today's interview was to follow up with specific questions we had as a result of Jim Blair's review of the various major consulting and agency agreements at Aircraft, review of the correspondence files, etc. Reference is made to the memo which is being prepared by Jim Blair which will be a complete chronology of the interview. The purpose of my memo will just be to highlight certain observations which I feel are particularly important as a result of today's meeting.

Gonzalez started by giving us a brief rundown on what they attempt to do from a legal aspect when reviewing the various agreements - namely that they ascertain that it is in fact tax deductible or that there is support for the services being rendered, and that it is allowable under ASPR. He acknowledged that he doesn't like having to deal with the agents, but that it is truly a way of life and that as long as the amounts are reasonable and can be justified and supported and thus covered under contract coverage and/or by tax deductions, that they proceed then on that basis. He has apparently withdrawn in the past few months been delegated the sole responsibility of dealing on behalf of the division with the agents and consultants, and he has thus brought in another man underneath him (Paul Champion) who now more or less administers the mechanics of the agreements, makes sure the files are complete, supportable, etc. Gonzalez has been very instrumental in dealing for Aircraft Division with the agents and consultants directly. He stated this is more or less at the direction of Cassa ^{6/25} who a few months ago or perhaps a year or year and a half ago decided to tighten up considerably in this area because of the magnitude of the amounts that were then being disbursed or contemplated for disbursement.

Gonzalez recited briefly what he considers the various roles or general role of the agent and consultant to be. He just said with the consultant you hire the person to provide services or provide particular advice. He is a specialist. As to an agent, they run the gamut from being very professional to being just influence peddlars, but that often you had to go this route because you could not afford really to have your own staff or experts in every country. They somewhat are a way of life, and he would equate their role very much to the use of agents in the U.S. by professional athletes. In other words, this man's job is to get your product to the marketplace.

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The discussion then turned directly to the Triad agreement. Blair covered the various peoples that we had observed in the correspondence, and obtained Gates' input as to who they were and what their role was. Blair also pursued what the various roles were of Kim Roosevelt and Sam Souki as regards Triad. Gates stated that Souki was in fact in both camps - namely that as agents and consultants - but that Kim Roosevelt was a senior statesman and he would be flabbergasted if he was involved at all in obtaining fees from Triad or others for work he might do. He just apparently gets Northrop together with others and then goes back to doing his own thing.

The various government officials and/or other high officials in Saudi were discussed, including their various roles and how demanding they were of Triad and/or Northrop. Gonzalez pointed out that the correspondence ~~and~~ file that shows that the various princes were putting the pressure on Northrop, that this was basically third-party. It is basically Khasshoggi's contention that these people wanted more money thus he wanted to boost his ante to cover for them. Gonzalez stated that he is not aware first hand of any dollars from Northrop actually reaching Saudi government officials.

For approximately thirty minutes during this point of the conversation, I had to leave to take a telephone call on another related matter, at which time the discussion continued on the sequence of events and the other matters on Triad.

The discussions then turned to ATS. We mentioned particularly the so-called paragraph 5 (h) which was in the earlier agreement but which was eliminated from the final agreement, and which said something to the effect that Northrop could withhold monies to be used for national purposes. Gonzalez was very unclear about this, and said that we probably should talk to George Gore. He stated he was not really sure who had drafted this earlier agreement, but it may have been him, but again, he did not recall this particular paragraph for the specifics. He stated in response to a question that he didn't think the name change or the move of ATS locale from Switzerland to Bermuda was of any great significance. He felt this was just merely a tax planning mechanism from ATS. He then went on to state somewhat his knowledge of the various ATS agreements and the proposed termination thereof. He stated that the people behind ATS (Mahvi et al) did not want their involvement to become known with respect to future commissions on the F-5-F, thus Northrop suggested that they just terminate the agreement and settle up on what Northrop ~~owed them on the F-5-E~~. These settlement negotiations are still in process, Gonzalez stating that Northrop probably would agree in the final analysis to pay them everything they had coming, but that follow-on work on spares or what have you would not then be covered by commissions. He stated that he has told Mahvi repeatedly that Northrop must answer that there will be commission agreements if in fact the present agreement stays in effect, and that there is no way that Northrop will proceed with agreements other than by disclosing. Mahvi then has apparently taken the position that they do not want this disclosed (Gonzalez does not really know why) and so the possible termination. As to why Mahvi might not want his name to become known, Gonzalez can only speculate that he thinks he is in some kind of a political warfare with another high official in Iran and does not want his name or his company name bantered around even though the business purpose may be honorable.

Jim proceeded to then ask certain questions regarding other agency agreements - concentrating on Malaysia and the Spanish agreements. With respect to the Pinto agreement where there apparently is somewhat of a side agreement which really covers the

To Northrop File

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nuts and bolts of the workings - the primary agreement being that which is entered into for purposes of showing the tax people or whomever in-country, Gates stated that this is really a way of doing business there, and he did not think it was that particularly unusual. In response to a question from Blair as to whether or not he felt this was triggered by tax problems, Manny said he just did not know, but that the basic question of only revealing in some of these countries what you have to again is a way of life. He states that in fact he was told by an attorney in Spain that if they disclosed a lot of this stuff they would be in a vast minority. In response to various questions on Malaysia, Manny stated that he knows of no one near the government who has received any monies through the agency payment made by Northrop.

In response to the general question as to the various assignees that often are observed in these agency relationships, Gonzalez stated that they don't really investigate this too much, and as far as he is concerned as long as they are dealing with the same people and the job is getting done, they don't really care to whom the man may choose to have the checks made out.

The meeting concluded at approximately 10:30 a.m.

August 23, 1974

A-E
(5)
MEMORANDUM OF INTERVIEW

Northrop: Jack Campbell

This memorandum sets forth my recollection of an interview of Jack Campbell by Messrs. Crim (E&E), Francisco (PW) and myself on August 6, 1974.

Mr. Campbell is now the Assistant Controller of Northrop, a position he has held since August 1972. Previously he was the chief financial officer of Page Communications.

Our interview of Mr. Campbell related to the Schedule M items and other items he had set out in his response to the questionnaire.

We began with Schedule M. He explained. Schedule M provided an IRS form used to report expenses which are not deductible by a taxpayer either because it is something other than an ordinary and necessary business expense, or because the item, although perhaps ultimately deductible, is not deductible for the tax year.

The first Schedule M items we discussed related to the INTS project. Campbell explained the background of the INTS project. Previous to this project Page had undertaken to construct a satellite communications system for Iran. The company's performance of the contract was, in his opinion, a dramatic example of a good, solid

performance so that Page made a good initial impression on the client country. In connection with the securing of that contract, Northrop paid to H.R.H. Prince Chararm Pahlavi a sales commission which Campbell regards as a bona fide transaction. The Prince, although a member of the royal family, has for some time been self-employed primarily as a consultant and commission agent for foreign firms seeking to do business in Iran.

Subsequent to the commencement of the satellite project, Northrop participated in the organization of a consortium for the purpose of submitting a bid to construct a civilian/military communications system for the entire country of Iran, including telephone, telegraph, radio, etc. The consortium was organized because in the view of its members none of them acting alone would be able to secure or perform the so called "INTS" contract. The members of the consortium were General Telephone and Telegraph of Italy, Nippon Electric, Page Communications (Northrop) and Siemens of Germany. An acronym used to refer to the consortium is GNPS. The undertaking by GNPS was described by Campbell as the largest undertaking of its kind in the communications field. The estimated cost of the INTS project to Iran began at \$125 million and ultimately increased to \$225 million. The portion of the contract performed by Page hovered around 60% of this total or in excess of approximately \$135 million. The consortium

members provided a variety of goods and services. General Telephone provided electronic gear; Nippon provided some electronic gear, constructed some towers and installed its equipment; Seimens provided electronic gear and all of the power facilities required for the system; Page installed all of the General Telephone and Seimens equipment and was responsible for almost all civil construction required for the system, including buildings, access roads, etc. In addition, Page opened and ran a training school, and was responsible for the maintenance and operation and other miscellaneous odds and ends of the contract.

At an early point in the organization of the consortium it was agreed between the members that up to 5% of the total contract price could be paid as commissions or fees ostensibly either to get the contract or for advice how to perform the contract (including how to get payments). Of the consortium members, Seimens was by far the most experienced company, the only one with extensive prior contracts in Iran. Somewhere along the line Seimens suggested to the executive committee of the consortium, and it was approved, that in excess of \$1 million in cash be contributed by each of the members and placed in a Swiss account under the control of Seimens in order to provide Seimens with a means of making "certain payments to individuals" in connection with the INTS contract.

Page made its contribution by way of courier. A vice president of Northrop assigned to Page for the INTS

project (a retired general, Jablonski, West Point All American) hand carried the cash contribution of Page (approximately \$600,000) to Switzerland and either deposited it in an account designated by Seimens or opened an account for that purpose. When his task was completed, with due disregard for the confidentiality of his assignment, he wired Page the account number and confirmation that the deposit had been made. Subsequently, a second deposit was made in a more indirect way. The second time a withdrawal was made from the working capital of the consortium. My notes are unclear whether Campbell explained the physical manner in which the second deposit was made.

So far as Campbell is aware, neither he nor any other person in Northrop knows for a fact how the funds were utilized. There was no assurance that Seimens, which controlled the account, used the cash for the announced purpose and clearly no evidence that the funds were used to bribe any public officials. For that matter, Campbell does not assume that Seimens did anything other than pocket the money, but the implication which Campbell drew from his understanding is that the money was probably, in part at least, used to pay off some mid-level Iranian officials.

The implication drawn by Campbell is rooted in his belief that there is a need to make such payments

in Iran. The way in which the government bureaucracy operates makes it almost impossible to get the necessary approvals on schedule if at all unless there is a special effort. All members of the bureaucracy operate on the understanding that a mistake can put them and their families in jail or worse; the best way to avoid a mistake is not to make a decision. Another way is to submerge their responsibility for any decision by having other people share in making the decision. For example, we were told by Campbell that as many as 46 signatures were required for payments under the INTS contract, and even when you got the signatures payment was not necessarily forthcoming.

Other legitimate explanations for the Seimens type payments are to secure for the consortium members logistical information they would otherwise not have respecting reliable sources of supply or subcontractors, and how to move material and people as required. Consortium members have paid fees and commissions in Iran in lieu of bringing into the country the kind of people any of them would have in their employ at their domestic plants with such titles as expeditor, inventory manager, labor relations officers, contracting officials, etc.

On the other hand, it is equally possible that these legitimate reasons for paying consultant fees are simply in addition to the need to bribe public officials

into doing things for Page or other members of the consortium. The point is that Campbell does not know, although he was willing to indulge in various speculations. The payment of the \$600,000 to Seimens and the subsequent payment of \$500,000 from Page funds contributed to the consortium fall into the category about which Mr. Campbell is willing to speculate. He claimed not to have been directly involved in the decision to make the payments, but he was very much aware of the commitment. Campbell contended that he was quite uncomfortable with the Seimens payments at the time because he regarded them as possible bribes or troublesome. However, he characterized his position as one in which he did not feel he could say no to the effectuation of an understanding which had been a major premise to securing a very substantial contract. He sees the issue as one in which he could have quit in protest, but did not feel the need. Rather, he went along with the payment.

Campbell was pivotal to the initial determination to deduct it from U.S. taxes as an ordinary and necessary business expense. When it came time to prepare the Page income tax returns, he listed the payment as a proper deductible expense on the Page return forwarded to Northrop. His rationale was that the payment was made pursuant to an agreement reached within the overall GNPS consortium of which Page was a part and thus the expense was an ordinary

and necessary business expense. When the matter got to Northrop, Howard Rath, then Director of Taxes, refused to permit the deduction and insisted the item be placed on Schedule M unless Page could secure further documentation.

Campbell attempted to pursue documentation from Seimens but despite a series of reportedly acrimonious exchanges Seimens refused to provide any documentation for the payment. Accordingly, Rath's decision stuck and the item was placed on Schedule M.

Campbell discussed with us his general concerns with payments of this kind. He was asked what considerations or procedures he would like to see followed by Northrop personnel in respect of matters of this kind. He reported he would like to have any substantial expenditure in cash subject to five criteria. Those criteria are:

1. Was the payment approved by the appropriate and proper officials of the company?
2. Was the payment made in a way and for the purposes in accordance with the policy and procedures of the company?
3. Was there sufficient documentation to justify its tax treatment?
4. Were there any other reasons that might give rise to questions whether the payment could be deducted from income taxes?

5. Is it a payment which would pass muster as an overhead item when reviewed by DOD?

After enumerating these criteria, Mr. Campbell concurred with an interviewer's suggestion that the Seimens payment met none of the above-mentioned criteria.

At that juncture, Mr. Campbell added that if there were problems with this kind of payment because there were either a large-gross number involved or a large percentage of large contracts, he wanted us to be aware that the company was on the verge of negotiating a contract for the Libya Air Defense System in which the company would pay a commission far larger than the 5% upset limit agreed to (but never reached) in the INTS contract.

The second item discussed with Campbell was the cash given in late 1972 to Ross Miller, a group vice president, then in charge of the Iran operation. Just prior to his return to Iran where he was sent as a trouble-shooter to resolve some Page problems, Mr. Miller asked for and received \$30,000 in cash justified simply by a voucher that the cash was needed for "in country expenses." As things came to pass, only approximately \$12,000 of the \$30,000 was actually expended; the remainder is held in an imprest suspense account. Mr. Campbell suggested that he did not know the uses to which the money was put. He simply believes that Miller who was sent to Iran as a

troubleshooter to deal with a particular situation felt the need to grease some wheels in Iran.

[We subsequently discovered from Willson the uses to which the funds were put. Willson has been told by Miller that the money was used to pay off an Iranian tax official who "caught" Page failing to withhold taxes on the full amount of income paid to Page U.S. personnel in Iran notwithstanding that Page was following the custom, which is to withhold taxes only on the income paid to the personnel in Iran and not to withhold taxes for income paid to him or his account outside Iran. Willson added that once Miller extricated Page from the shakedown threats of the Iranian tax officials Miller and Willson arranged for Page to withhold thereafter the full amount of taxes, including tax on income delivered outside Iran, notwithstanding Willson's view that Page is now the only company doing that. This subsequent action was taken so as to avoid the necessity of any further payoffs notwithstanding that the payoffs would cost much less than the taxes.]

At the time Miller took the \$30,000 to Iran he asked for and received a check in the amount of \$16,000 payable to Dr. Aghayan, Page's lawyer in Iran. The voucher showed it was for legal services; Aghayan received this payment in addition to the legal retainer he normally received. Campbell volunteered his view that there was nothing wrong with the payment but that he had put it on his list because it was a payment drawn on the account

of Northrop rather than Page whereas the professional relationship existed between Page and Aghayan. Ultimately, the payment was billed to Page who in turn billed it to INTS. Despite persistent questioning, Campbell insisted that he knew no more.

Mr. Campbell said he knew nothing personally about Savy. In his capacity as Controller he was able to justify deducting the Savy payments for tax purposes because there was sufficient documentation. He did indicate that his office (Controller) did not issue control payments to Savy since he was paid by bank drafts rather than by check. He thinks this is a procedural mistake he has or will correct.

The last item we discussed was the \$500,000 payment to Giorgio Berlingieri in Switzerland for the account of Interocean. This payment was made pursuant to a contract for a sales contract although the contract was never obtained. He knows little more other than Ed Moses instructed him to make the payment on the occurrence of an event. When he was informed the event had occurred, he made the payment. He is aware of a variety of circumstances which led Northrop not to enter into the contract notwithstanding that the payment was a commission paid for the contract. The circumstances he related include unrest in Thailand, hesitance on the part of Northrop bankers to finance the project, and a corporate decision

to terminate the subsidiary which had gotten a preliminary agreement for the contract.

MRK

7-E
(4)

CONFIDENTIAL

August 15, 1974

NORTHROP CORPORATION

AUGUST 7, 1974 INTERVIEW OF HOWARD RATH,
FORMER DIRECTOR OF TAXES AND ASSISTANT SECRETARY
OF NORTHROP CORPORATION

1. On August 6, 1974 an interview was held with Mr. John B. (Jack) Campbell, Northrop Corporate Controller, in connection with the special investigatory program being followed by Ernst & Ernst (E & E) with assistance from Price Waterhouse & Co. (PW & Co.) as set forth in their respective engagement letters dated June 10, 1974 to Mr. Clair L. Peck, Jr., Chairman of the Northrop Audit Committee. Those present during Mr. Campbell's interview were E. Raymond Crim (ERC), Partner, E & E, Michael Klein (MK), Partner, Wilmer, Cutler, & Pickering, and Michael H. Francisco (MHF), Audit Manager, PW & Co.
2. As the result of the interview with Mr. Campbell, it was decided that further pertinent information might be obtained through an interview with Mr. Howard Rath who is now a partner in the law firm of McDonald, Halsted & Saybourne in Los Angeles. At 10:00 a.m. on August 7, 1974 Mr. Howard Rath (HR) was interviewed in the presence of ERC, MK, MHF and Mr. Gordon Stine (GS), E & E Tax Partner, in the offices of HR.
3. The purpose of the interview was to determine, essentially, what caused HR to list on Schedule M the payments to Siemens in connection with the Integrated National Telecommunications system, "INTS".
4. HR stated that before answering the question, he needed to describe his role at Northrop as Director of Taxes and Tax Counselor. HR stated that he was responsible for filing the consolidated returns beginning with the 1967 fiscal year. Prior to 1967, the returns, although not consolidated, were filed by E & E.
5. HR then summarized the background on the "INTS" contract and GNPS consortium. At the time that the July 1971 tax return was to be filed, HR heard from either John Baker, who is currently the

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Vice President of Finance at Page, or from Jeff Kitchen, Northrop Vice President, the following story.

6. According to either Baker or Kitchen, a man named Jablonski, who is a Northrop employee working with the GNPS consortium, traveled to Switzerland with Page's share of the initial commission payment of approximately \$660,000. Mr. Jablonski met some unknown persons in a hotel room and handed out the \$660,000 in cash.

7. Inasmuch as there was no substantiation as to the purpose of the disbursement, this led HR to list the \$660,000 payment on Schedule M. This resulted in no deduction for income tax purposes. According to HR, this was a one-time payment.

8. When the IRS came in to audit Northrop for the 1968-1970 period, they obviously saw the Schedule M amount which is a permanent disallowance. HK told the IRS to "forget it" and that the Company had decided not to claim it as a deduction because they didn't have documentation as to what the payment was for. The IRS auditor, whose name is Maynard Gordy, stated that they could not "forget" this particular payment even though it was not claimed for tax purposes because the money might have gone to a U.S. taxpayer. There was no Form 1099 filed with respect to this particular payment and, consequently, they had no other choice but to request additional information. Accordingly, HR attempted to obtain further information with respect to this particular payment.

9. Further investigation indicated that Jablonski did go to Switzerland and he opened up a Swiss bank account on behalf of the Corporation. Mr. Jablonski is a retired lieutenant colonel in the Air Force and, according to HR, is a straight-forward individual. In fact, he even wired the number of the Swiss bank account to the members of the consortium which is a violation of Swiss law. According to the further information obtain by HR, a representative of Siemens informed the entire consortium, including Jeff Kitchen, that certain payments had to be made. However, Siemens refused to divulge what the payments were for. According to HR, it is his understanding, although this is only through conversations with John Baker, that Siemens then withdrew the cash from a bank account and made certain payments.

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10. This information was documented by HR by obtaining affidavits from Baker and Kitchen and one other Page officer whom HR could not remember (Hughes), in order to present his position or the Company's position to the Internal Revenue Service. At no time did HR ever learn how the money was spent and he does not know anyone in the Company who is reported to know how the money was spent.

11. Subsequent to the first expenditure, which was a direct payment by Page to the Swiss bank account, HR learned that another payment had been made the following year out of working capital funds of the consortium. This apparently was not known by John Baker and, consequently, this later amount of approximately \$600,000 was claimed as a tax deduction. When HR learned of this particular expenditure by the consortium, he wrote a letter to the IRS and said that this should not be considered a deduction for purposes calculating taxable income. However, HR stated that he did not think it would be appropriate to file an amended return because Northrop was already approximately \$3,000,000 overpaid due to other matters that are not related to this particular situation. The calculation of how much of the GNPS payment to Siemens was based on the percentage relationship developed as part of the consortium agreement. HR stated that he was informed by Baker that the 1971 payment was the last payment but that Page's share in the second payment might be larger than originally stated because of the adjustment of the percentages due to the ultimate relationships of contribution by each consortium member.

12. The reason that a second payment was necessary was because the amount paid by the Siemens group reportedly was based on a percentage of one-half of 1% of the original amount of the contract. As stated by Jack Campbell in his interview, the contract grew from \$125,000,000 to \$225,000,000 and due to the increase in the contract, the additional payment was made.

13. As far as HR knows, probably no one in Northrop knew about the second payment. HR further stated that probably Jones did not know anything about the payment because Kitchen was vested with full responsibility for the Page contract in Iran.

14. It is possible that Grant McDonald, the former Corporate Controller, might know something about it since he was involved in

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some of the discussions relating to the documentation of the payment.

15. Because there was nothing in the affidavits to support a tax deduction, it was decided to list these payments as Schedule M items.

16. According to HR, James Willson was fully apprised of this payment and therefore might have further information.

17. HR confirmed the consortium organization insofar as its status. According to HR, each member worked separately with respect to contracts that were awarded to the consortium; however, the consortium members did share certain administrative expenses.

18. With respect to the Denrees commissions which ultimately were 3% of the contract price and commission payments to Prince Charam Pahlavi, a separate affidavit was obtained from those individuals who had knowledge concerning the services performed. According to HR, the services that were received from these two commission agents were reasonable in comparison to commissions paid to others for similar activities. However, the IRS was "hung up on the payments" and in the final audit report, which was an unagreed matter, the agent took the position that these payments were contrary to public policy. (I think it was only the payment to Prince Charam Pahlavi that was considered to be contrary to public policy.) They also stated that the amount was unreasonable.

19. However, HR assured us that in his view, the services received from the Prince were quite substantial and in his mind the title "Prince" leaves an impression of an affiliation which really is undeserving because the Prince provided them with a considerable amount information with respect to tax and other matters.

20. However, because the agent took the position that this payment was contrary to public policy, the burden of proof was on the commissioner. This is the worst situation that the government could take because of the burden of proof.

21. HR informed us that it is his understanding that they have made a tentative settlement with respect to this matter at the appellate division and that the expense is considered to be the allowable. It is MGF's opinion that this particular disallowance

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by the IRS is quite unusual in that there is no one in the Company who has knowledge that the payments to the Prince were for purposes not in the public interest, there was definitely value received according to HR and Jack Campbell, Corporate Controller, the IRS did not provide the tax payer (Northrop) with information as to why the amount paid was contrary to the public policy, and they did not present a position to the appellate division that would allow a judge to conclude with the service.

22. It should be kept in mind that this amount in total is 3% of the gross or \$6,750,000 with respect to amounts paid to Denrees and it would be difficult to assess whether value was received equal to the amounts paid.

23. It was HR's position that he doesn't think the IRS expects Northrop to go behind the payment (i.e., to have knowledge of how the agents spend the money).

24. Turning to the \$30,000 paid to Ross Miller for certain in-country expenses in Iran, HR related the following story:

25. He indicated that Northrop has a holiday between Christmas and New Years where everyone is out of the office. On the last day before the holiday was to begin at approximately 3:00 p.m. Jack Campbell asked Howard to approve the \$30,000 payment. It had all the proper approvals including Jim Willson and so Howard approved it as part of his check signing responsibilities as Assistant Secretary. A short time later, a secretary came back and asked Howard to endorse the check, "Northrop Corporation, Howard Rath. Howard refused because this might be considered to be income to him and then noticed that this check was quite unusual because it was payable to Northrop Corporation.

26. At this point, HR went downstairs to talk to Al Johns, who was waiting in the Wells Fargo Bank. Al Johns indicated that they had to have the money in cash per instructions from Ross Miller. Consequently, HR endorsed the check and he saw that \$30,000 was placed in a suitcase and given to Al Johns. Howard indicated he did not count the money but "it looked like a lot of money". Al Johns and HR walked upstairs and he watched Al Johns give the money to Jack

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Campbell. Although he is not certain, apparently Jack Campbell gave the money to Ross Miller. HR did ask Jack if he advised Ross that a special slip needs to be filled out when clearing customs when you have money of this magnitude. Jack said that he had given him the advice.

27. Because there was no documentation for the expenditure of these funds, no deduction was taken on the income tax returns, however, Ross did indicate that it might be possible in the future to get documentation so the \$30,000 was classified as a suspense item in case substantiation did turn up.

28. HR doesn't know why or how or what the money was used for. He said it is speculation and Jack Campbell also speculated that the money might have been used for a payoff.

29. ERC asked whether or not HR knew of any other payments. He said "No, but it is possible."

30. HR did not provide us with any information with respect to Euredvice or Savy and the only thing that he has seen is an affidavit prepared by T. V. Jones for the Internal Revenue Service.

31. He also did not have any information with respect to Frank DeFrancis, the lawyer, and was very vague as to what services he performed. He did say that the IRS did not question these services.

32. Because we had not seen the affidavits referred to by HR, HR agreed to go out to the Northrop corporate headquarters to find these affidavits in his files.

33. The interview ended at approximately 12:30.

M. H. Francisco
August 8, 1974

*NOTE - Following no copies of
revisions comes rec'd from
Rozz which did not
duplicate data we
already had
Aug 14/74*

With respect to the INTS program, Crim started by asking certain specific questions on INTS, Watts somewhat interrupted and asked to give a brief overview as to his general involvement in the program. He then went on to recount how he had become directly involved only at the time when there started to be apparent problems with the program - he would guess this would be in May '70 or '71. Even though unclear on the dates, he did feel that this preceded the Ross Miller involvement which is in 1972. He thought his involvement was perhaps two years after the program really got started - this would appear to put it in the area of 1971, give or take a few months. He stated he went to Iran following a visit by

George Gore, wherein Gore had spent some two weeks trying to ascertain the situation in Iran with respect to performance and Page's legal position in connection therewith. Gore apparently came back from this two week stint saying that in fact there were legal problems on performance, and felt that a very in-depth and detailed legal investigation should be made. Again Watts pointed out that this was in connection with the performance of the contract, not related necessarily to any other legal questions at this time.

He then stated that as he got involved in this work, he heard about payments to be made for various agency agreements. He stated that at this time he did not necessarily pursue to see to whom these went, what for, etc. He just stated that he was given the impression or was told that the payments were made in accordance with certain commitments that had been made by the Consortium to various agents - thus that these payments were required, and were made. He then stated that it was not until some time later that he had inquiries from Howard Rath with respect to the payments, Rath apparently pursuing the deductibility of certain of these payments for tax purposes. Watts and Rath apparently conferred with respect to these matters, and concluded that detailed investigation should be made to the extent practical. As to the detail of these payments, ~~Rath~~ ^{Watts} said that much of this information is probably hearsay, but that he did hear from Rath that it had been Rath's understanding at that time that certain of these payments may have been made in cash. Watts went on to recite that the balance of the payments he knew went to three groups - Denrees, Prince Charam, and to some numbered bank accounts in Switzerland. Rath's major concern was of course with respect to the transfer of monies to these numbered accounts. Watts was going to Iran, thus working through and in conjunction with the Rath investigation, he talked to Jablonski at the Consortium, and got his story with respect to these numbered accounts. A coded message was sent to Rath affirming what he had been told. (Reference is made here to a transcript of this coded message as recited by ~~Rath~~ ^{Watts} in our conference - this should be attached to Ray Crim's memo of this subject interview). The thrust of Watt's discussion with Jablonski was that Jablonski had in fact gone to Switzerland and opened a numbered account, and waited until he was informed that monies had been deposited in such account, and then departed. Watts said he did not know too much of the mechanics behind these accounts, or how the money actually got into the numbered accounts, but assumed this was more or less a Page transaction. He stated again that his only involvement was to ascertain through inquiry, whatever facts he could to support Rath's position on this matter, or at least to attempt to document for the file what had really transpired beforehand.

We then discussed somewhat the Denrees payment. Watts told me he had never met any of the Denrees group, and that again he was not too familiar with what share of the agency fees they were entitled to, etc. He felt that the man with the most information with respect to the disposition of the fees, or with first hand knowledge as to what they were entitled to, would have to be either Jeff Kitchen or Joe Waldschmitt. He said he participated in an interview at the Northrop Corporate offices with Howard Rath, documenting for the file who the Denrees group were, what they had done for the INTS contract, why it was a good deductible expense, etc. A copy of this affidavit is in the file of Ray Crim. Basically such affidavit goes on to recite for several pages what the Denrees group did, but states among other things that Kitchen does not know who is behind the Denrees group.

With respect to the payment to Prince Charam, Watts knew even less than for Denrees and the numbered accounts, inasmuch as he had apparently never been involved in the sort of interview or documentation after the fact with respect to these payments. He stated he had never met the Prince, but as far as he knew, the signed agreement and the apparent propriety of the documentation was all that Howard Rath had desired. In response to certain other questions along this line, Watts said he had never seen the Denrees agreement until Howard Rath showed it to him.

I asked as to what Jeff Kitchen's real role in Iran was. He went on to recount how Northrop was involved in somewhat of a three-prong business program in Iran - namely airport development work, airplane sales, and the INTS program. Apparently it was concluded that an-in-country talent should be placed there permanently, and thus evolved Jeff Kitchen's role. As such, he was apparently the "T.V.J. man in Iran." Apparently in this role he was responsible for efforts on airplane sales, supplementing Lord's airport development work, and of course, working on the INTS program with Joe Waldschmitt. Crim pointedly asked as to who would be the man to ask as to where the Siemens money finally ended. Watts stated that he did not think we would ever be able to find out this answer. He then went on to state how he felt this was very similar to a general agency or commission agent type role, that they are very instrumental in helping you with your work in that country, but how you never really know exactly how they get the job done - nor do you want to know. He points out a very valid legal difference between knowing perhaps that money is used for an illegal purpose, or just surmising it is. He thinks the proof of the pudding as to whether or not the agent is doing good work, is in performance. He does not feel in the real day to day world, that you need to know necessarily what they do to get the job done. He said "you need to find an agent who could do your thing, they won't tell you what they did - but you see if they produce." He does not see any problem with this from a legal nature, as long as you do not know exactly where their money goes.

Again expanding upon the Siemens payments, he stated his reconstruction would be that Siemens came to the Consortium and said that we need the money to assure success of the program. Watts would feel that the Consortium accepted these payments, undoubtedly relying upon the apparent earlier success of Siemens in Iran - they having been in business there for many, many years prior to this date. He doubted if Waldschmitt or the Consortium members would quibble over an amount such as Siemens was asking for, in light of the overall importance of this program.

There followed some general discussion with respect to how agreements such as this might be controlled. Watts stated that he felt that these CPD #72 would be a satisfactory control measure if it were followed. Apparently this policy which was instituted some year and a half ago, requires that no commission agent agreements are negotiated in a foreign country, until they have gone through an established review procedure. This review procedure entails, in addition to review by local counsel, a routing through Corporate office. This routing includes Bob Gates (Watts also stating that he thinks that no agreements have been approved by Gates within the past year or so without Lloyd's specific approval) and to George Gore from a legal review standpoint. Watts stated that his responsibility - under Gore - is to in fact perform this review function on legality. Watts stated how this legality question includes (a) is it legal as a contract cost, (b) is it legal as a deduction for IRS purposes, and (c) is it legal from a very precise point of view. He states that he reviews for these questions, reports back to Gates, after which approval then may or

may not be given to the profit center. He feels this is a satisfactory method, and saw no reason why it wouldn't work, given a good opportunity. With respect to control over consultants, Watts referred to CPD #10. He felt this needed more teeth to be really effective, but saw no reason why something such as this wouldn't work, again given good opportunity to do so. He did state categorically that certain consultants did not flow through the stream designed by CPD #10. These apparently would be those consultants reporting directly to T.V. Jones, although Watts did not specifically state this. However, in response to certain questions later on, as to certain consultants we knew fit this category, it was clear that these were the ones which by-passed the stream. He felt that all consultant agreements should flow through this same channel, and that all consultant agreements should be approved by others in the organization - he saw no reason why this couldn't mechanically be worked without any hardship on anyone. He appears to believe very fully in a system of checks and balances, does not see his ideas as being revolutionary at all, rather a very simple system of cross references and official approvals. Crim told him he would like him to get his views with respect to controls jelled, perhaps even reducing this to writing if he could, in order that we may make use of it in our final procedural recommendations at the conclusion of the investigatory procedures. Watts somewhat begged the question, thinking that this would be better covered by George Gore, inasmuch as he is the one really in a position to understand the whole Corporate spectrum, etc. Watts summarized this section by saying that he believed that 99% of the present problems would have been solved by merely following the policy directives which are now in existence.

The meeting then turned to a discussion of the IOS agreement in Bangkok. Again Crim started the discussion by saying that this transaction was continually being raised in various interviews, and he would like Watts' opinion as to why it has been singled out as a "problem area." Watts proceeded to answer this and the same time give a general overview as to his involvement in this transaction. He stated that he felt perhaps the main reason for it receiving considerable attention, was that primarily Lord entered into an agreement to pay an agency fee without approval by any other senior Northrop officers. He felt that was the heart of the problem. He also said that he felt there was probably much animosity between the various Corporate officers as regards Lord. Watts then went on to describe how he had spent considerable time and effort on this Bangkok project. He was apparently very instrumental in the negotiation and document preparation attempting to get this contract off the ground. He stepped through the various Corporate layers that were being developed as a basic structure for this contract - stating that these were pretty well his ideas - and he equated it more or less to attempting to lead a horse to water. He stated that he felt very early in the game, that the subjects being discussed by Lord and the Thai government were too broad in regards to possible contingent liabilities to Northrop, through NADC. The concept was thus established that a Thai company would be formed which would secure a contract from the Thai government, this Thai company would then work with NADC (Northrop). However, before this Thai company could be a recognized entity to secure financing, make commitments, etc., it had to have something concrete. Thus was born the idea of the original letter of intent to be secured from the Thai government, stating simply that they agreed to pursue the concept and agreed to continue negotiations on a subsequent contract.

It was at about this stage of the negotiations, where Watts learned of the commission agreement which was apparently in effect with IOS. He looked into this agreement, and found that it was very ambiguous, and that it appeared to commit Northrop to total payments aggregating about four million dollars. Of this, approximately one million, four hundred thousand would be payable upon securing nothing more than this letter of intent. Watts stated that he met with the officials of IOS - and that he pursued with them an alternate course of action. Based on his meetings, research into the agreements already in effect, he proposed amendments to the agreement which would limit Northrop's exposure (upon signing of the letter of intent) to a fixed sum. No other amount would be owed by Northrop unless specific additional matters transpired - such as securing an official contract. He stated he made this recommendation to Mr. Lord, and Lloyd and Willson who were then in country, and told them they should establish an amount which is acceptable for the level of effort expended by IOS to date. He stated they came up with the figure of \$500,000, which he could not argue with. He stated he knew that IOS had spent some 1 to 1½ years in around the clock efforts on the proposal, negotiations, etc. Although you couldn't equate this half million dollars to a per diem hourly rate which would be reasonable, he did not believe that from a business standpoint the half a million dollars was unreasonable. He said that he was very concerned that it limit future obligations or contingencies of Northrop which it apparently did do. He thus said that it was put on the line as to whether or not the half million dollar was a good business decision. He said again that he felt he could live with it, and that it was a management decision based on the best available information, ~~that should end~~. He felt there was no question that the half a million dollars was justifiable, but said that he didn't know really where it went. Crim asked if he had ever heard the comment that Northrop personnel had been asked if they wanted to know what the money was going to be used for, and they said no. Watts stated he had not heard this, but he was glad if this were the case, since management was doing what he felt would be prudent under the circumstances. Watts again recounted how he felt that the way you have to do business with these agents, was to just associate yourself with those with integrity, tell them what your job is, and have them do the rest.

He stated that after these negotiations and discussions in Bangkok with IOS, he remained involved in the project, and was continually briefing Willson, Gore, Lloyd and Douglas with respect to the status.

As to why the deal fell through, Watts recounted as to how the negotiations dragged on, the government of Thai apparently just not being ready to sign. He stated that financing arrangements were being worked on, but this was somewhat of a low key priority, primarily under the direction of Willson and Abe Moses at NADC. It was only low key inasmuch as once the contract was signed, there were 120 days in which to finalize the financing aspect. He felt the government was primarily very sticky on the question of assumption of risk by Northrop, pinpointing of liabilities, etc. He stated that at one time, Lord went into another meeting with the Thai government by himself, came out and informed Watts that he had not made any major concessions or changes, but that he all but had an agreement ready for signing. Watts intercepted this documentation, reviewed the changes that had in fact been made and agreed to by Lord, and contacted the key Corporate officers and expressed his concern. Lord was apparently called to the Corporate office, and some two day meetings were held here discussing the various concessions. Apparently these had to do with assumptions of additional risks and liabilities by Northrop. Northrop rejected the Lord proposals, and Watts felt the project just basically went downhill from that

point, never recovering. He stated that finally Northrop withdrew, and this led to really getting out of the whole NADC operation. He further stated that he had a lot of faith in the program, and felt that it would have been a very interesting and exciting program had it gotten off the ground.

The meeting was concluded with Watts making certain comments with respect to his observations of Northrop personnel with which he had been in contact over his ten years here. He said that he believes that the Northrop people have the utmost of integrity of any group of individuals he has ever been associated with. He stated that he, in his legal capacity, was continually challenging, probing, and playing devil's advocate, but that is how he was satisfied to the utmost with everything with which he had been associated. He went on to state that he felt if there was any general criticisms, it had to be by people who did not think they were involved. He believed that human nature is such that we all want to feel that we are in the middle of things, we are part of the team, and that we know what's going on. He feels as much as any criticism is a question of speculation on the part of many. With that our interview of this date was concluded.

L. J. [Signature]
8/14/74

MEMORANDUM

To: James D. Willson

Corporate Office
8744 Wilshire Boulevard
Beverly Hills, California 90212From: Frank S. Perego - *UP MARKETING*

In reply refer to:

150

Subject: CONSULTANTS - FY 1971

Date: 17 August 1970

Copies: Glenn R. Lord

Ref:

C. Torgeson

Stahrl W. Edmunds

Dr. Edmunds is Dean of the School of Administration at the University of California, Riverside and is on call to Dr. Ellet for special projects. He was not used at all during 1968, but has recently completed an analysis of Latin American countries for Dr. Ellet and Mr. Lord. The statement for this study is \$900 and will come out of our 1971 budget. No other requirement for his services is forecast at this time for the duration of this year.

General Hunter Harris

We will terminate General Harris' contract at the earliest practical time. We have not discussed this termination with him to date at the request of Mr. Dorsey and Mr. Elder because of sensitivities at CINCPAC and PACAF as well as South Korea and Republic of China with respect to the F5-21 program. It is our understanding that this has been coordinated with Mr. Jones and we will enter into termination discussions as soon as their judgements indicate there is no longer sensitivity concerning the F5-21 program.

Ray Harvey

At the present time we have no budgetary requirements for Mr. Harvey's services. He is on call to us if the Company needs him. However, there is no retainer fee paid. We do not anticipate asking for his services for the duration of this Fiscal year, unless some emergency arises which indicates our need of his special relationships.

General Yancey

General Yancey was engaged as a marketing consultant to primarily assist the Ventura Division in support of the SCAD program, as well as tactical reconnaissance drone activities. For many years General Yancey was deeply involved with the DOD Intelligence Agencies and was a reconnaissance specialist in the Air Force. He will also be used by the Electronics Division in support of the JIFDATS program as it applies to the Air Force reconnaissance intelligence missions.

NORTHROP

MEMORANDUM

To: James D. Willson

From: Frank S. Percgo

Subject: CONSULTANTS - FY 1971

Corporate Office
9744 Wilshire Boulevard
Beverly Hills, California 90212

In reply refer to:

Date:

Ref:

Copies:

Page - 2 -

Charles E. Drysdale

Mr. Drysdale is currently the only consultant being used by Organization 189. Since Mr. Drysdale is 66 years old, Mr. Lord arranged that he be used as a consultant instead of as a regular Northrop employee.

Mr. Drysdale has just retired as District Airport Engineer and as Chief of Airports Branch and Airports Division of the FAA in the Western Region. Thus, his 30 years of professional engineering experience is being utilized in our Puerto Rican and forthcoming airport programs.

Marshall Gurney

Mr. Gurney was engaged as a Navy Customer Relations consultant several years ago in support of Bob Elder's activities throughout the Company. At the time Mr. Elder was transferred to the Office of the President, a decision was made not to hire a replacement for him because it was felt that Mr. Gurney could handle the requirements. To date this arrangement has proven to be completely satisfactory and Mr. Gurney is in constant communication with all divisions and subsidiaries handling special requests with various parts of the Navy in their interest. Mr. Gurney contributes far more of his time to Northrop than specified in his contract at no additional costs to the Company.

General Graves B. Erskine

General Erskine is being used primarily for special projects in the Far East and S. E. Asia. Due to his previous responsibilities in DOD where he assisted in establishing the CIA functions in Korea, Taiwan and Thailand he is intimately acquainted with all of the senior military and political leaders in those countries. At the present time his services are very important to the implementation of a Hallicrafters' plan for establishing a manufacturing company in Thailand. General Erskine also provides a very sophisticated liaison for our Company for highly classified program requirements involving the intelligence community of our Government.

Col S. W. Towle

Col Towle represents a unique capability to Northrop in terms of desecret liaison with very senior Air Force officers both active and on retired status. He is available to the Vice President - ERO and the Office of the President for special projects.

NORTHROP

TO: James D. Willson
 FROM: Frank S. Perego
 SUBJECT: CONSULTANTS - FY 1971

9744 Wilshire Boulevard
 Beverly Hills, California 90212

In reply refer to: 152

Date:

Ref:

Copies:

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Lt. Gen. Sun Chang

Upon his request General Chang terminated his agreement with Northrop recently due to an assignment of heavy responsibility by the President of South Korea. He is still available to us for discreet and informal consultation at no cost to Northrop. A decision has been made not to replace General Chang at least for the duration of this fiscal year.

H. Moon Chen

Moon Chen provides customer liaison and support in Northrop's efforts to sell the following products to the Nationalist Chinese Government:

F5-21
Ventura basic targets

The sales of these products should amount to several millions of dollars. In addition, Mr. Chen provides liaison with respect to the F-5 aircraft now in service with the Chinese Air Force. He supports Page's efforts with respect to communications systems in China, and has been active in efforts to get airport business.

Patrick Timberlake

Pat Timberlake is available on call for specific projects to the Northrop Corporation with no retainer fee. We do not anticipate any need for his services for the duration of this year.

Markaylin Consultants, Ltd. (Mark Hubbard)

Mr. Hubbard is in a continuing liaison position with Canadian Government officials regarding the F-5 license manufacturing program and the use of these airplanes by the Canadian Air Force. In addition, he has been active in the marketing effort for Ventura drones and is currently involved in the sale of Ventura's improved torpedo and Electro-Mechanical's blow-pipe programs in Canada. Although the Canadians are not a prime candidate for the early phases of the P-530, it is believed that they are a potential customer and we have been continuing to have contact with the Canadian Defence Forces for this program.

Mr. Hubbard's consulting fee was reduced by \$300 per month effective September 1, 1970.

NORTHROP

9744 Whittier Boulevard
 Beverly Hills, California 90712

To: James D. Willson

From: Frank S. Perego

Subject: CONSULTANTS - FY 1971

In reply refer to: 153

Date:

Ref:

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AVM I. D. McLachlan

AVM McLachlan has provided contact with top cabinet ministers, government officials, business and financial leaders in Australia in the establishment of Page Communications Engineers subsidiary and in the current effort to sell the P-530 program to the Australian Government. In addition, he is active in the Electronics Division's efforts to establish a licensing agreement for Airborne Omega.

The Page and Aircraft business requires constant and continuing liaison with various elements of the Australian Government and business community. Because of Australia's recent initiated action to replace their Mirage fighter aircraft, Northrop's efforts with respect to the P-530 program will be accelerating and expanding over the next several months.

Kermit Roosevelt

For several years Mr. Roosevelt has provided for Northrop direct highest level government liaison in both Iran and Saudi Arabia. He has worked primarily in support of the Aircraft Division and Page Communications Engineers. He played a very key role as consultant to Mr. Kitchen and Mr. Waldschmitt with respect to the INTS program in Iran and presently has been requested to support Mr. Kitchen in the very near future on a high level visit to Saudi Arabia. He works very closely with the office of the President in planning highest level contacts in both countries.

K. J. B. Maneckji

India has always been identified as a future potential market and the company has felt that a "listening post" was desirable in order to have a first-hand appraisal of this area.

Samyr Souki

Mr. Souki provides liaison and contact with the political and military leaders of Morocco, Libya, Saudi Arabia, Lebanon and other countries in the Middle East for Page, the Aircraft Division, Ventura Division and Hallicrafters. He is currently directly involved in implementing programs in Morocco and Saudi Arabia. With the identification of new opportunities for Northrop in the Arab world, the need for his assistance and counsel should be expanding during the coming months.

NORTHROP

James D. Willson
 From: Frank S. Perego
 Subject: CONSULTANTS - FY 1971

9744 Wilshire Boulevard
 Beverly Hills, California 90212

In reply refer to: 154

Date:

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Societe Worldmarket & Cie

Mr. W. R. de Ravenel provides coverage with the French military and industry environment. The Electronics Division has license agreements with French industry which require continuing liaison, and both Electronics and Electro-Mechanical Divisions have identified new business opportunities which are in the process of being implemented. He also provides a valuable "listening post" as to the activities of our French competitors in the aircraft business.

Chahine Aghayan

Although Chahine Aghayan is a legal consultant for Northrop in Iran a management decision was reached last year that he would be carried on the marketing budget. With the capture of the INTS contract, his work in support of Northrop and Page Communications Engineers has increased to a considerable degree. Accordingly, Mr. Kitchen is presently negotiating a new contract with him which if successful will charge 50% of his contract to the INTS consortium and 25% to both Page and Corporate Marketing. This should reduce our budgetary requirements by a considerable degree.

Gregory Lima

Mr. Lima is a Public Relations specialist in Iran and is available to Mr. Kitchen and Page Communications Engineers for work in their behalf. It is extremely important to retain his capability in support of our total Corporate interest in Iran as well as specific Public Relations problems associated with the INTS program.

Charles W. Kirkwood

Charles W. Kirkwood is a legal consultant in Thailand, but due to his long experience in country he acts in a much broader role for Northrop. At the present time he is intimately involved in all of the planning for establishing a joint venture manufacturing company in Thailand for Hallicrafters. He is also available for counsel on high level relations in support of the Aircraft Division interest in Thailand.

Frank S. Perego

Frank S. Perego

FSP:gg

NORTHROP

To: W. H. Gurneo - *STN. ASSISTANT TO . 12 Jones*
 From: J. D. Willson
 Subject: CONSULTANTS - FY 1971
 Copies:

In reply refer to:

Date: 13 August 1970

Ref:

155

The attached schedule represents our current information concerning contracts with consultants in your particular area of interest.

The following information is necessary for the FY 1971 Corporate Office budget submission to the President. We need this information for each name on the list.

1. Justification for continuation of the contract.
2. Probable budget required for the year. (This includes fees, and expenses.)

Please reply by 18 August 1970.



J. D. Willson

JDW:cm

Attachment

*Bill - TVJ's consultant
 budget*



*Jm
 See attached
 for our conversation
 (Bill?)*



NORTHROP

CONSULTANT CONTRACTS
TERMINATION TERMS

<u>Consultant's Name</u>	<u>Contract Dates</u>	<u>Notice Required</u>	<u>Amount Required</u>	
Chase Bank <i>50000 (orig)</i>			<u>60,000</u>	1
Madame Claire Chennault <i>15000</i>	11/1/69-10/31/70		<u>15,000</u>	2
Frank J. DeFrancis <i>60000 (orig)</i>	3/20/69-3/19/73		<u>60,000</u>	3
J. Gerritsen <i>10000 (orig)</i>	7/1/67-6/30/72	None	<u>10,000</u>	4
Richard E. Horner <i>15000 (orig)</i>	8/16/70-8/15/71	60 days notice	<u>15,000</u>	5
R. E. Krafve <i>2000 (orig)</i>	1/16/70-11/4/70	Any time	<u>2,000</u>	6
Manufacturers Hanover Trust <i>90000 (orig) - will not not next yr.</i>			<u>90,000</u>	7
Bert R. Miller <i>30000 (orig)</i>	8/1/70-7/31/71	90 days notice	<u>30,000</u>	8
Richard Nolan <i>15000 (orig) - will be 12K next yr.</i>	6/1/70-5/31/71	90 days notice	<u>15,000</u>	9
Roland Richards <i>15000 (orig)</i>	3/1/69-2/28/71	90 days notice	<u>15,000</u>	10
E. L. Sommer & Associates <i>3000 (orig)</i>	4/1/70-3/31/71	Any time	<u>3,000</u>	11
Paul Stehlin <i>4000 (orig)</i>	12/10/69-Continuing	15 days notice	<u>4,000</u>	12
William Thybony <i>4000</i>			<u>4,000</u>	13

sub Total \$ 436,000
+ unallocated 34,000

Total \$ 470,000

MEMORANDUM
 Northrop Corporation, Corporate Office
 1800 Century Park East, Los Angeles, CA 90067

In reply refer to:

157

To: A. E. Johns

From: R. B. Watts, Jr.

Subject: Consulting Agreement/General Bernard A. Schriever

Date: February 21, 1973

Copies: W. Gurnee

Ref:

General Schriever's Agreement covers a period of three years from
August 1, 1972 through July 31, 1975.

Article 4(a) of the Agreement states that he will be paid a fee of \$600 per day, with the understanding and agreement that he will devote a minimum of two days a month to our work. Additionally, he will be reimbursed for expenses he incurs incident to the performance of his consulting services.

Article 5 and Article 6 provide that he is to render monthly certified invoices to receive payment for his professional fee and reimbursement for his expenses.

Due to the nature of his services and accounting peculiarities as explained in his letter of February 2, 1973, it has been orally agreed upon between Mr. Jones and General Schriever that the above invoice formalities may be waived. Therefore, Accounting is herewith authorized and directed to effect reimbursements to General Schriever based upon his letter submissions so long as each such letter submission is approved for payment either by Mr. Jones or Mr. Douglas.

Robert B. Watts, Jr.
 Associate General Counsel

APPROVED:

George F. Douglas

MEMORANDUM

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

In reply refer to:

To: Those Noted Below

From: R. B. Watts,

Subject: Corporate Consulting Agreements

Date: May 4, 1973

Re:

Re:

1. Legal Department
2. Corporate Accounting
3. Department head of the organization that requested the consultant.
4. Air Force Plant Representative/Contracting Officer
5. G. C. Gartland (Security)

If a foreign consultant is involved that was not originated by the Vice President - International, the Legal Department will advise him that a consultant has been retained, his name, business address, and the country in which he will be performing consulting services.

All consulting agreements originated by the President's Office or that involve consultants who report directly to the President shall automatically be treated as sensitive.

If any other consulting agreements are considered to be sensitive, the originating organization or the Office of the Senior Vice President - Administration should inform the Legal Department of this circumstance so that the concerned agreement can be appropriately designated and handled.

Robert B. Watts, Jr.
Associate General Counsel

RBW:ar

Those Noted:

T. V. Jones/W. H. Gurneo
R. M. Detmers A. E. Johns ✓
G. F. Douglas
G. C. Gartland
C. R. Gates
G. Gore

NORTHROP

8-C2

NORTHROP Northrop Corporation Aircraft Division	STANDARD PRACTICE PROCEDURE	S.P.P. NO. 2-2.8
SUBJECT: <u>FOREIGN CONSULTANTS</u>	PAGE 1 of 2	
	EFFECTIVE 26 June 1973	
	SUPERSEDES 21 March 1972	

*Denotes Revision

I. PURPOSE

To provide the procedure for using local consultants or agents in support of Aircraft Division international marketing activities in customer nations.

II. GENERAL

- A. Refer to CPD 22 for final approval requirements and CPD 42 for recommended consultant/agent qualifications, preferred arrangement for remuneration, and coordination requirements.
- * B. Contact (written or oral) with any foreign consultant pertaining to contract or financial matters will be made only by the Vice President, Contracts and Pricing, or with his express prior approval.

III. PROCEDURE**A. Customer Requirements**

- 1. Identify need for use of local resident services and define applicable requirements.
- 2. Notify Northrop International of requirements and coordinate selection of consultant/agent services with Northrop International.
- * 3. Develop the proposed fee and payment schedule in conjunction with Contracts and Pricing.
- 4. Obtain General Manager and Northrop International approval as required.
- * 5. Advise the Division General Counsel of the approved requirements. Use format shown in SPP Attachment 2-2.8.1.

B. Division General Counsel

- * Draft contract/agreement (including renewals, changes or termination notices, as required) for foreign consultant/agent services based on approved requirements defined by Customer Requirements. Furnish draft contract/agreement to Contracts and Pricing.

(Continued)

III. PROCEDURE (Continued)**C. Contracts and Pricing**

- * 1. Negotiate, in concert with Customer Requirements, the contract/agreement for the applicable services. Obtain prior approval of Division General Counsel for any proposed changes to the terms and conditions of the agreement.
- 2. Negotiate recovery of foreign consultant/agent service costs.
- * 3. Administer the terms and conditions of the contract/agreement.
- * 4. Distribute signed agreements as appropriate.

D. Finance

- 1. Issue payment for foreign consultant/agent services in accordance with the payment schedule negotiated for the services, or in accordance with invoices approved by the responsible member of the Executive Council.
- * 2. Provide the Vice President, Contracts and Pricing with copies of all checks, or other payment forms, issued to foreign consultants; also a monthly summary of all payments, listing each consultant separately until he has been paid in full.

IV. REFERENCES

CPD 22, "Levels of Commitment Authority"

CPD 42, "Foreign Consultants"

SPP Attachment 2-2.8.1, "Foreign Consultant Agreement Request Format"

ISSUED BY
MANAGEMENT SERVICES

NORTHROP**Corporate Policy Directive**

Subject: FOREIGN AGENCY AGREEMENTS -
CONTINGENT FEES

No: CPD No. 72

Page: 1 of 2

Date: 1 June 1973

I. POLICY

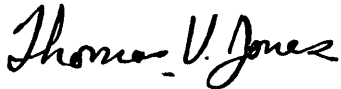
- A. The general policy of the Company is not to engage agents on a commission, percentage, contingent, brokerage or similar fee basis for other than normal sales of commercial products. In the unusual situations where it is deemed necessary and in the best interests of the Company to engage agents on such a basis, the subsequent provisions of this Directive shall be strictly followed.
- B. Advance payments to such agents shall not be made nor shall the agent be paid in full before the work of the Company has been completed and the Company fully paid. Therefore, unless prior approval of the Corporate Office is obtained (see II-A below), the times when the agent is paid and the amounts of each payment shall be fixed so that he will be paid only as the Company is paid and in the same ratio as the Company is paid.
- C. When procurements by the United States Government are involved, for services or supplies for foreign governments as well as the United States Government, careful attention should be given to ASPR 1-500 through 1-505, and ASPR 15-205.37, concerning contingent fees; ASPR 6-705.3, "Pricing Procurements for Foreign Military Sales"; and ASPR 7-103.20, "Covenant Against Contingent Fees." No arrangement may be made which would violate the applicable requirements or jeopardize the allowance of the agent's fees as costs.
- D. No arrangement may be made which would jeopardize deduction of the agent's fees for Federal income tax purposes (see Corporate Finance Manual, 2-908).

CPD No. 72
Page 2 of 2
1 June 1973

- E. The originating entity shall investigate to make certain that appointment of the agent proposed by it will not conflict with or duplicate services being procured by other entities of the Company, and that the fees proposed are generally consistent with the fees paid by it or other entities of the Company for similar services.
- F. Agreements with such agents shall be approved as to form by legal counsel for the originating entity.

II. RESPONSIBILITIES

- A. All agreements with such agents shall be submitted to the Vice President - Northrop International for his approval and shall not be executed and delivered before he approves.
- B. It shall be the responsibility of the originating entity to submit for approval agreements that comply in all respects with the policies stated in Section I above or to point out to the Vice President - Northrop International any deviation from such policies.
- C. The Senior Vice President - Finance shall ensure that adequate financial procedures and controls are established between the Corporate Office and the originating Division or Subsidiary to ensure the proper payment, recording, and financial handling of all such agreements in accordance with CFM No. 2-908.



Thomas V. Jones
President

Applicable To:
Corporate Office
All Divisions
All Subsidiaries

**Subject: FOREIGN AGENCY AGREEMENTS -
CONTINGENT FEES**

No: CFM No. 2-908

Page: 1 of 2

Date: 1 June 1973

I. POLICY

- A.** CPD No. 72 requires that all agreements to engage foreign agents on a commission, percentage, contingent, brokerage, or similar fee basis be approved by the Vice President - Northrop International; and that the Senior Vice President - Finance ensure that adequate financial procedures and controls are established between the Corporate Office and the originating Division or Subsidiary to ensure the proper payment, recording, and financial handling of all such agreements.
- B.** CPD No. 72 also provides that no arrangement may be made which would jeopardize allowance of the agent's costs by the Government (when procurements by the U. S. Government are involved) nor jeopardize deduction of the agent's fees for Federal income tax purposes.

II. RESPONSIBILITIES

- A.** Prior to approval of foreign agent agreements, the Vice President - Northrop International will send a copy of the proposed agreement to the Vice President - Controller. In conjunction with the Corporate Director - Tax Administration and the Corporate Director - Accounting, the Vice President - Controller shall review the agreement to determine whether the agreement conforms to:
 - 1.** ASPR 1-500 through 1-505, and ASPR 15-205.37, concerning contingent fees; ASPR 6-705.3, "Pricing Procurements for Foreign Military Sales"; and ASPR 7-103.20, "Covenant Against Contingent Fees."

CFM No. 2-908
Page 2 of 2
1 June 1973

2. Applicable Internal Revenue Service codes with regard to allowability for Federal income tax purposes.

On conclusion of the determination, the Vice President - Controller will advise the Vice President - Northrop International of his findings.

- B. On approval of the agreement, the Vice President - Controller will coordinate with the Chief Financial Officer of the applicable Division or Subsidiary regarding payment, recording, and financial handling of the agreement.

#

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

in reply refer to:

To: J. D. Willson

From: A. E. Johns

Subject: 1972 Costs Considered Unallowable by DCAA

Date: 6 May 1974

Copies: J. B. Campbell
K. L. Mars

Re:

DCAA completed its review of 1972 corporate expenses in December 1973. At the conclusion of that review \$871,000 was considered unallowable by DCAA. The procedure which they will follow is to issue a DCAA Form No. 1 formally declaring the costs unallowable. When we get the Form 1 we have 30 days to reject their findings and appeal to the CACO (Murphy) for resolution. To date (after 5 months) we have not received the Form 1, but I understand we will receive it shortly.

Following is a summary of the make up of the questioned costs.

1. Consulting fees and expenses (\$ thousands):

Euradvice	\$120	
Wilco	60	
Roosevelt	60	
De Francis	56	
Savy	26	
Wilson	23	— u
Strickland	21	— u
Walker	20	— u
O'Rourke	18	— u
McLachlan	12	
Gurney	12	
Chennault	11	
Krafve	11	
Towle	10	— u
World Market	10	
Chen	8	
Weissenbach & Neutra	6	
Harris	2	
Colonna's tax consultant	1	
Miscellaneous from Baihle (Bangkok)	17	
		\$504

T U Jones

23 NORTHROP

J. D. Willson

6 May 1974

1972 Costs Considered Unallowable by DCAA

Page Two

2. Corporate aircraft (flights considered unsupported or related to noncompany business).	\$208
3. Public relations (disallowance based on theory that 32% of public relations costs are corollary advertising costs. We have offered 4% or \$14K).	110
4. Legal fees:	
Miller & Chevalier - Hague advertising case research	\$ 8
O'Melvney & Myers:	
S-8 filing	3
Anti-trust case	
(Aircraft Mfgs. Assn)	3
Federal income taxes	<u>1</u>
	15
5. Industrial associates payments (Stanford and SAE)	14
6. Costs related to registered securities - transfer fees, stock options, etc.	12
7. Dues and membership	6
8. Capabilities brochure	<u>2</u>
	<u>\$871</u>



AEJ:lc

1000-100000

To: *Distribution

From: C. R. Gates

Subject: Reporting of Business Conference and
Entertainment Expenses

Date: 11 January 1972

Copies:

Ref:

In order to clear up any confusion that may exist concerning the method of reporting and justifying subject expenses involving U. S. Government employees or military personnel, the following is intended to clarify the accepted procedures.

In 1964, DOD issued Directive 5500.7 concerning gratuities and "entertainment" of DOD personnel whether civilian or military. The restrictions were quite severe and resulted in our use of "Northrop Private" in connection with business conference or entertainment expense considered to be desirable for such personnel by the Northrop employees involved. Such expenses were not allowable under the ASPR. Since that time, the strict application of Directive 5500.7 has been relaxed somewhat.

Now, U. S. military personnel on foreign assignment such as attaches, MAAG staff and related U. S. agencies assume diplomatic status and are excluded from certain provisions of 5500.7. Such expenses are now allowable as long as the purpose, place and attendees are identified and are "reasonable." The purpose of the expense should relate to a Northrop marketing objective. Thus business conference expense for such U. S. personnel no longer requires the use of "Northrop Private" to avoid identification.

Entertainment expense, in any form, is an unallowable cost for DOD, but, if identified, and not excessive, is allowed for Federal Income Tax purposes. Thus, the U. S. foreign assigned personnel should be identified by names, titles and the reason stated on Form C-18B, just as in the case of C-18A. There may be unique occasions when for some reason you do not wish to identify a person being entertained; but remember, such expenses will not be allowable business expense under either DOD or IRS regulations. If you feel the expense is justified and reimbursable, identify the person on a separate slip of paper clipped to the expense report.

We wish to strictly observe all rules and regulations; however, due to lack of clarity in our understanding, some of us may be overly using "Northrop Private" and thus incurring costs that are not allowable expenses in the eyes of DOD and IRS.

To * Distribution

Subject: Reporting of Business Conference and
Entertainment Expenses

Copies:

Date: 11 January 1972

Ref:

-2-

One last point on the distinction between "business conference" and "entertainment." "Entertainment" is a social gathering where wives are in attendance or is of a context where no business discussion takes place. Such expense is allowable by IRS if the entertainment follows or precedes an associated business discussion. In this case, full details must be shown on Form C-18B concerning the identity of persons, place and the associated business discussion.

[Handwritten signature]
for C. R. Gates

CRG:bjb

*
M. Alonso
J. Bailhe
W. Byers
L. Chapman
R. Clark
L. Daly
R. Elder
C. Geranopoulos
T. McDougall
G. Parsons
Y. A. Pitts
R. G. Rogan
W. Rothwell
W. Weir

O-M-10 W-27

C. BIRKHAUSER } 17 Jan 72

NOV 1972

Subsidiary Finance Officers

Expense Reports

A. E. Johns

FROM: D. Willson

DATE: 20 January 1972

Ref:

Early this month Corporate Policy Directive #3, Travel Allowances, was revised.

You will notice that H. C. indicates that expense reports for Subsidiary Presidents, Division General Managers, and other Corporate Officers, must be approved by the President, or in his absence, a Senior Vice President.

This is being called to your attention so that you will be sure to have proper authority for disbursement.

JDW/nlk

[Signature]
D. Willson

*Aircraft Division
Electro-Mechanical Division
Electronics Division
Ventura Division
George A. Fuller Company
Northrop Airport Development Corporation
Northrop Architectural Systems
Page Communications Engineers, Inc.
The Hallcrafters Co.



NOTIFICATION

6A Expense Review Porter and Gates

Northrop Corporation
EXPENSE REPORT PROCEDURES
12/31/73

S. C. C. S. B. 1/4
12/31/74

Memorandum

Northrop Corporation, Corporate Office
1900 Century Park East, Los Angeles, CA 90067

In reply refer to:

170

To: James Dorsey
Subject: EXPENSE REPORTS
Copies: File

From: A. E. Johns
Date: 15 June 1971
Ref:

In an effort to improve our burden negotiation position with the Defense Contract Audit Agency (DCAA), we have established the following guidelines for identifying business conferences and entertainment expense on employee expense reports:

1. Business Conferences - if at all possible, classify meetings as business conferences. Effective immediately, do not report any Northrop Private meeting as a business conference. All Northrop Private should be reported as entertainment.
2. Entertainment - all Northrop Private meetings as noted above are to be classified as entertainment.
3. Northrop Private - the Northrop Private classification is to include only military personnel attached to U. S. units. MAC attaches and embassy people located in foreign countries are not considered assigned to U. S. units, i.e., they are not to be classified Northrop Private.

We would appreciate your advising us if you have any questions or problems in following the above guidelines.

A. E. Johns, Director
Corporate Accounting

NORTHROP

NORTHROP CORPORATION
EXPENSE REVIEW
12/31/73

S. G. H. S. H. H.
9/5/74

171

Gates, C. Robert

NORTHROP PRIVATE

DETAILS OF ENTERTAINMENT EXPENSE

See Reverse Side for Instructions

NAME (LAST) (FIRST)		EMPLOYEE NO.	DIVISION			
Gates, C. Robert		41296	Corporate			
DEPARTMENT NO.		EXTENSION	REPORTED ON FORM C-15 FOR PERIOD:			
200		281	FROM 4-8-73 THRU 4-13-73			
DATE	BUSINESS PURPOSE	PLACE AND DESCRIPTION OF ENTERTAINMENT	AMOUNT	NUMBER OF GUESTS	NAME, TITLE OR OTHER DESIGNATION	BUSINESS RELATIONSHIP
4/9	Discussion of F-5E, Cobra and marketing in Iran	Hotel Mark Hopkins (Drinks and Dinner)	\$29.21	2	Northrop Private Robert Ramsey - Bell International	
4/10	Discussion of export financing	Condor - S. F. (Drinks and Snacks) Cash Fairmont Cash	\$18.50 8.00 3.75	2	Northrop Private W. Nelkirk	
4/9	Cmdr. John Heyde - W. H. staff					
4/10	Gerry Nessel, Rep. Special Asst. to Sec. Treasury					

NORTHROP PRIVATE

NORTHROP CORPORATION
EXPENSE REVIEW
11/31/73

S. G. H. Smith
R. H. H. Smith
9/13/71

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2 Gates, C. Robert

NORTHROP PRIVATE

DETAILS OF ENTERTAINMENT EXPENSE

See Reverse Side for Instructions

NAME (LAST) (FIRST)		EMPLOYEE NO.	DIVISION			
Gates, C. Robert		41296	Corporate			
DEPARTMENT NO.		EXTENSION	REPORTED ON FORM C-15 FOR PERIOD:			
200		281	FROM 1-2-73 THRU 1-8-73			
DATE	BUSINESS PURPOSE	PLACE AND DESCRIPTION OF ENTERTAINMENT	AMOUNT	NUMBER OF GUESTS	NAME, TITLE OR OTHER DESIGNATION	BUSINESS RELATIONSHIP
1/7	Discussion of F-5E and Cobra overseas marketing	Pen & Quill (Drinks & Snacks)	\$ 7.35	3	Northrop Private	
		Lawry's (Dinner) Cash	\$30.67 7.50			
1/8	Discussion of F-5 and Cobra marketing and U. S. Govt support	La Marina Inn (Drinks)	\$13.50 2.75	3	Northrop Private	
		Donkin's Inn (Dinner)	\$51.70			

Cmdr. & Mrs. John Heyde
National Aeronautics and Space
Council - White House Staff

Guest

NORTHROP PRIVATE

172

PART B - 2.

MATERIAL RELATING TO NORTHROP AGENTS IN EUROPE

PART B - 2 a.

FRANK DeFRANCIS

*Extract from letter from Mr. T. V. Jones to Mr. E. R. Cline
September 1974*

FRANK J. DE FRANCIS

ACTIVITY

Mr. De Francis advises and counsels the Northrop Corporation in its international dealings around the world, but most specifically, the relationship with Western Germany. Because of the relationship of West Germany as a part of the European community and NATO, he has been concerned with other countries of NATO as they relate to activities in Germany or with programs that are common with Germany. His activities have centered on Northrop's efforts to establish a market for the F-5 aircraft in Germany and Europe, an improved version of the F-5, the F-5-21, which later became the F-5E, through efforts in Europe and the establishment of a -530 program through efforts in Germany and Europe.

Mr. De Francis was initially retained to fill a requirement for better access to and knowledge about the policy levels within the German Government. The need for this coverage became clear in 1966 when I was visited by a high official of the German Defense Department, accompanied by a member of the U. S. State Department, and they informed me that investigations in Germany on their procurement practices had indicated that Northrop was being put at a disadvantage over other American competitors through illegal activities and influences on the part of others. The purpose of the visit was to insure me that they had complete evidence of this keeping of Northrop from obtaining business. I was not being visited to provide further evidence, but the purpose of the visit was to inform me that the Federal Republic of Germany did think highly of Northrop's capabilities and had a desire to do business with Northrop on a normal basis without prejudice, and if in the future I felt in any way that Northrop was being inhibited in its ability to compete in Germany, I was to inform the Staats Minister (Under Secretary of Defense), and they would take action to insure that fair treatment was given. During the visit they stated rather directly they were surprised that we were not more knowledgeable than we were in our relationships with the German Government in the procurement areas; the implication being quite clear that the office wasn't doing its job. They further stated that we did have a very good rapport in the military and technical areas, but we seemed to lack knowledge of the other areas important to the acceptance of our offerings.

This visit merely highlighted a concern that we had had since 1959 when we lost out to the Lockheed Corporation -104 program when we were offering the -156 airplane which later became the F-5. In that case, I was told by the Chief of the Air Force and Secretary of Defense Mr. Strauss that they preferred the N-156 over the -104. However, the lack of broad support of our -156, both within the United States and Germany, made it difficult for them to make such a selection. After this visit, it seemed clear then, we had to reassess the way we approached our contacts in Germany, that our office which had a German national as head of it, an assistant, plus a German secretary, costing us around \$100,000 a year, wasn't doing the job for us. I discussed the need, then, for a new approach in Germany and better access across the board in our marketing meetings at Corporate level.

Frank J. De Francis (continued)

Mr. De Francis has worked with several parts of the Northrop organization from time to time. His primary means of communication is between himself and the President, most of them being by telephone, as much as an hour or so a day, formulating plans of action on the F-5 program and the -530 program, during periods of intense activity; then in carrying out such plans on his side within the German Government.

COMMENTS

Mr. De Francis' capabilities are unique, providing to Northrop upon his hire the understanding of the German policy intentions important to defense programs and specifically the aircraft programs of interest to Northrop, and also the ability to analyze and develop a plan of action in consonance with those policies and U. S. policies; also an ability when required to hold first-hand discussions with the principals at a policy level involved within Germany. We thus achieved the balance in our relationships with Germany that was required. (Northrop had already achieved a higher level contact and acceptance within technical, military and defense department areas of Germany. Mr. De Francis did not concern himself with these areas.)

While Mr. De Francis did help from time to time with important other sales efforts in Iran, Indonesia and several other countries, his major contributions have been in the development of our important overseas aircraft programs that are key to Northrop's success. Also, Mr. De Francis' knowledge of the U. S. Government, especially the Congress that have the interest in U. S. overseas relationships, has been invaluable such that in one man we have both the ability to understand Germany and the European countries and, at the same time, have the ability to understand the U. S. relationship to those countries. This combination of capabilities has been valuable to Northrop in its work.

Frank J. De Francis (continued)

In the -530 program, it was through Mr. De Francis' consultations and direct efforts that the German Government became interested in participation in supporting as a matter of their own national policy the smaller countries of NATO, Belgium, Holland, etc., culminating in a letter offer being made (sensitive) from the German Minister to the Dutch Minister that the German Government would contribute \$50 million to the first phase of the development of the -530 if the Dutch and other countries chose it for re-equipment. Unfortunately, this offer (in 1971) was not able to be accepted by the Dutch, even though they had desired to go ahead with the -530, because the Dutch Government fell, and by the time the new Dutch Government was established and they wished Germany to reinstitute its offer, Germany, for internal policy reasons, was unable to do so.

Further, Mr. De Francis was very instrumental in working again with the Foreign and Economic Ministries within Germany in getting acceptance of the German support of the P-530 in development as part of the off-set discussions between the Federal Republic of Germany and the United States. Once again, for internal U. S. reasons, not German, this did not come to fruition. It did provide the basis for a development of the -530 package proposals to the other countries of NATO with lateral encouragement from Germany that had led to the recent decisions of Belgium, Holland, Norway and Denmark to make the decision within their parliaments to replace their aging -104's and has resulted in the recent visit to the United States of the multinational team that arrived in the United States in June to consider the selection of an American aircraft for the re-equipment of their air forces.

It was the development of the P-530 concept within Europe and the definitizing of it as our P-530 proposal that led to the airplane configuration that was selected by the U. S. Air Force in 1971, along with General Dynamics, for the YF-17 and YF-16 aircraft which are now flying at Edwards Air Force Base with the U. S. announced intention to procure 600 of these aircraft for U. S. Forces. The value of this program to Northrop within NATO and to third countries can amount to \$7 to \$15 billion over a period of 20 years. The work of Northrop in Europe, with the assistance of Mr. De Francis back in 1967, clearly was the genesis of this aircraft program offering such a potential to Northrop.

QUALIFICATIONS

Mr. De Francis is a graduate of Georgetown University Law School and has been practicing law in Washington, D. C., as a member of the bar for the last 23 years, specializing in international and corporate law. In this capacity, he has served many first-line U. S. and European companies, especially German. In addition, he has been the U. S. Legal Counsel to the Federal Republic of Germany through its Embassy in Washington for the past 20 years. He was Legal Counsel for the Italian Government for 4 years in the middle '60's, and at the time, to my knowledge, was the only legal representative of two major powers in Washington. He terminated his representation of Italy when a conflict of interest between Italy and Germany arose. He has represented the American meat interests in the U. S. He has represented, through an industrial association, the German steel and chemical company interests concerning divestiture of assets in the United States during World War II over \$200 million.

MEMORANDUM OF DISCUSSIONS WITH MR. DE FRANCIS BY MESSRS. CRIM AND DEVOS

September 9, 1974

This memorandum is being dictated by Messrs. Crim and DeVos on the morning (September 10) following our (and Falkenhagen's) meeting with Mr. Frank DeFrancis in Washington the previous day (September 9, 1974). The meeting with Mr. DeFrancis began at 11 a.m. and lasted through lunch and up until approximately 7 p.m. In addition to Messrs. Crim, DeVos and Falkenhagen attending the meeting with Mr. DeFrancis, Mr. Howard Willens also joined the group around 11:10 and left at approximately 5:00 p.m. Mr. Falkenhagen left shortly after 6:00 p.m.

We began the meeting by explaining the purpose of our visit which was to obtain information regarding the use of consultants, agents, etc. by Northrop. Mr. DeFrancis inquired as to what Price Waterhouse role was in the inquiry and this was explained to him. He also inquired as to the reason for Mr. Olaf Falkenhagen being there. He was apparently concerned somewhat about Olaf's German accent and had not known of his attending the meeting when the arrangements were initially made.

We asked Mr. DeFrancis to be as candid with us as possible and if at any point he felt that the exercise of the attorney-client privilege was in order to let us know when he was doing so. He agreed to follow this procedure and said that there would undoubtedly be some areas where he would not want to disclose matters. Mr. DeFrancis indicated, however, that this would undoubtedly be a quite rare situation and would be those instances where his other clients' affairs were involved. (In reflecting on what was said we don't recall any significant instance where failed to answer the questions.)

Mr. DeFrancis is a person of medium build, somewhat stocky in appearance and is approximately forty-five to fifty years of age. He said that he had represented the German government for approximately twenty-two years. He talked at length about his having grown up with the German government from the time when it was an occupied country to date. He said that he became involved with the German Embassy matters through a Georgetown law professor who was of German extraction and arranged

Mr. DeFrancis said Northrop was the only American client that he has ever represented in Germany. 179

He repeated again the fact that he had grown up and developed with the German government as it had grown and developed. He made reference to the handling of a property acquisition for them in Virginia during the "Bay of Pigs" incident. His account with the description of the property transactions seemed to be that he had an opportunity to buy this property later at what he considered to be a real "bargain price" but refrained from doing so because of his "high ethical standards." He indicated that in connection with the bargain price he would still have paid more than had been offered by the highest bidder on the property; but still thought this was improper for him to do.

He said that he was approached by Northrop and in effect "chose Northrop" not the other way around. He pointed out that he had two brothers-in-law who worked for Northrop. He indicated they were working for Northrop before he was engaged by the Northrop organization in 1967. He said that his relationship with Northrop had always been quite personal. He used the "personal" type relationship on several occasions and said that he was surprised that Jones didn't come to him when he got into problems with the illegal political contributions since he could presumably have helped him and said that was what he was being paid to do.

He said that Messrs. Holcombe and Lord (and possibly Jones) of Northrop came to see him. They indicated they could not get to first base in Germany. They explained the Northrop concept for manufacturing airplanes which he liked. His explanation of the Northrop concept was that the airplanes would be smaller, less sophisticated, would be developed from one generation to another, and would be produced in the European countries as much as possible rather than entirely in U. S. plants. In talking about the family of airplanes he made reference to the graduated development from the F-5 to the F-5-E to the P-5-30 which became the YF-17. He pointed out that the F-104 (Starfighter) which was being used by most European countries, including Germany, was too sophisticated. He said that Germany

had lost approximately one-third of its F-104 fleet due to "pilot error." He went on to say that he understood that there had been approximately 110 F-104's that had been lost in the manner just described and that he had been against the acquisition of the 104's from the beginning since he felt they were too sophisticated; but, he said, he had never taken a position with the German government on this matter.

Mr. DeFrancis said that he cleared his representation of Northrop with the German government. He said that this "clearance" had been with the Minister of Finance, the Ministry of Defense, the Chancellor, and the Minister of Foreign Affairs. The clearances he said were "oral" and never reduced to writing.

Mr. DeFrancis said that because he was not a "sales representative" he was not subject to the Strauss act. He made reference to the fact that Willens would know what he meant and said that his actions were voluntary because of the type of relationship he had with Northrop and were not as a result of being required disclosures under the Strauss act. He also, upon questioning by Falkenhagen, said that he did not receive a commission and therefore was not the type of sales representative that would require registration with the German government. (Note - This may not be entirely correct since at least from Sept. 22, 1969, and perhaps as early as 1967, he had an agreement which apparently would have resulted in his receiving commissions, which were based on sales. In this connection it is noted that when talking about the commission or sales agent status, Mr. DeFrancis did not make any reference to the existence of the 9-22-69 agreement. This did not occur until after lunch. It should also be noted that as far as we have been able to determine he never did receive any payments under that agreement but the potential for them did exist.)

He did make reference to the fact that there was a sales representative for Northrop in Germany. This was a General Galland (a former chief of the German Luftwaffe). He made the comment at some point that General Galland was phased out. He said that he had learned that he was also employed by United Aircraft, who had conflicting interests. He, in this connection, made several references to the fact that he felt Northrop's international staff was quite weak and in talking about this

indicated his remarks should be understood as being limited to people no longer with the Northrop organization. (Later, DeFrancis commented on the disappointing results of Northrop's efforts in Indonesia, the commodity credit deal, the possible joint ventures with Siemens, etc.)

We next got into the subject of the contract arrangements which he had with Northrop. We were particularly interested in the current 15-year \$100,000 contract. Mr. DeFrancis said that in 1969 after his two-year, \$50,000/year contract had about run its course, Mr. Jones came to him (DeFrancis) and offered him a two-year \$100,000 contract. DeFrancis said that he turned this down because of his own personal tax situation and indicated that he was more desirous of a longer four-year deal. As a result he said he got the four-year \$50,000/year contract. We then went to the subject of the 1973 (15-year \$100,000/year) contract. This took a considerable amount of discussion by DeFrancis to get to the specifics and it seemed that he was "rambling" but he indicated that thought this was important so we would get the full background of his arrangements with Northrop. At this point he went into a discussion of the fact that he felt the free world needed to replace the F-104's; that the P-5-30 (YF-17) and the Mirage were the only real possibilities and thus he felt he would be serving both clients - Northrop and Germany by entering into the long-term contract with Northrop. He talked at length about the MRCA (which is a multi-national development sponsored by the British in which German is involved) and quoted from the recent (August 28, 1974) article in the International Herald Tribune dealing with the YF-17, the YF-16 and the Mirage and read several paragraphs from that although we told him we had already seen it. He then said that he had done considerable work in the area of the "offset or balance of payments situation." This, from several comments, appeared to be the most sensitive area of Mr. DeFrancis' discussions. He made reference to the fact that he did not want to get into certain aspects of the background of this. However, he did refer to a proposed German agreement to provide substantial money for the development of the P-5-30. He made reference to an offer of \$60 to \$100 million of assistance on this program. He said that in

his opinion he had never been fully recognized by Jones (or Northrop) for his efforts in this "offset-balance of payments" situation. He said it occurred in the 1971-72 period, (thus it was in the middle of the four-year \$50,000/year contract). Mr. DeFrancis said that he felt that his efforts in obtaining the German support for the P-5-30 program were not contemplated by the four-year \$50,000 contract and that he had a number of discussions with Mr. Jones concerning additional fees (which he referred to on occasion as "hassles") about the subject. He said that this whole program had the potential of something between two and twenty billion dollars in its final sales potential. Mr. DeFrancis indicated that the Company did not see fit to pay him for the extra effort and the results obtained by him in the German willingness to provide the support for the P-5-30, which for other reasons (not because of something that Northrop or DeFrancis did) never came to pass. He made reference to the fact that he believed Laird (possibly on the advice of Kissinger) had been responsible for the turn down of the arrangement and as an aside, there are in the files (whose files?) references to the fact that Mr. Laird failed to impress upon the German government that the U. S. was really behind the development of the P-5-30. In any case DeFrancis went on to say that when the offset-balance of payments discussions took place it developed that there was no requirement from the U. S. for "hard offset" which would have involved the use of German money to buy American airplanes or support American development of American airplanes but only for "soft offset" such as the rehabilitation of barracks for soldiers etc., very different type of offset than the support for the P-5-30 would have entailed.

During these discussions Mr. DeFrancis made the statement that because of his efforts in areas such as the offset payments, he felt he was worth far more and wanted a long-range, almost a retirement type deal. It is possible that what Mr. DeFrancis meant here was he wanted a contract that would cover him until his retirement. He then said, however, that in 1973 he was in out of the hospital a lot. He made the

statement that he thought at one point he might not survive. Upon questioning he described his medical problem. We did not pursue this further with him. He said that this led him to conclude that he should narrow the number of clients he served down to one or two or three or four or five, that he could handle. It should be observed that Mr. DeFrancis had told us that he was a one-man type law firm and that he charged on the basis of what he thought his efforts were worth rather than on the basis of time; this decision to reduce the number of his clients was an effort to protect his desire to remain a one man law firm and therefore limit his clients to those he could personally service. (As an aside, Crim has the thought that the fact that Mr. DeFrancis was in the hospital in 1973 and needed to work out some sort of a reduction in the scope of his activities could have been one of the reasons that he took the fifteen-year \$100,000/year contract rather than continuing the 9-22-69 EDC type agreement which provided for a commission on the sales of the F-5-E (F-5-21) type airplane. During several of these discussions Mr. DeFrancis made reference to the fact that no one ever envisioned the substantial volume of sales of these aircraft which had resulted since the date that the EDC arrangement was completed.)

(As a further aside, Crim observed that Mr. DeFrancis appeared to become somewhat disturbed during his discussions of the reason he wanted a fifteen-year \$100,000 contract. This occurred when Falkenhagen asked if his representation of Northrop was in writing to Germany and he had again responded that he was not a sales representative. It should also be observed that at this point no reference had as yet been made to the fact that there was a potential commission arrangement with DeFrancis which was in existence up until the EDC agreement went into effect.)

During all of these discussions Mr. DeFrancis made reference to the fact that there were a number of negotiations between he and Jones relative to his seeking a better contract which recognized his worth to Northrop. In fact during the conversation he asked his secretary to bring in the "incomplete contract file on Northrop." He made reference to the fact that Jones offered him a seven-year \$100,000 arrangement and on

February 19, 1973 he received a copy of such a contract. After of month of thought he concluded he would not go along with this. This preceded the time of a March 1973 visit to Los Angeles when he indicated he wanted a firm contract for fifteen years. We inquired into the question of why there appeared to be an urgency in completing the fifteen-year \$100,000 contract. (We had heard from Gore that he had been asked by Jones in the morning to prepare a contract for Mr. DeFrancis and a short time later - (like by lunch time) - Mr. Jones asked him where the completed contract was. This apparently upset Mr. Gore as he did not understand the urgency for the contract. In trying to reconcile this with what Mr. DeFrancis was telling us it appeared that possible Mr. Gore did not know of the previous contract discussions between DeFrancis and Jones which had culminated in the meeting in Jones' office in Los Angeles when the fifteen-year \$100,000 contract was finally agreed upon and signed the same day.) Mr. DeFrancis made reference to the fact that he told Mr. Jones he was not leaving until he had this long-term contract, or he was going to offer his services to others who had, according to him, inquired as to his working for them (competitors).

In talking about the contract arrangements with Jones, Mr. DeFrancis made the statement that he did not believe he was fairly treated by Jones when Jones offered him a seven-year deal. He said this was particularly true, in his mind, because of his efforts to arrange for Germany to provide the substantial (60 to 100 million dollars) assistance in the P-5-30 program were not fully recognized by Jones. At this point Mr. DeFrancis said he was also sick and was going to limit himself to up to five clients. He said that he wanted "the extraordinary type service" payments built into his 1973 deal so that he would not be caught like he was in 1971 and 72 when he apparently felt he was successful in securing the German assistance on the P-5-30 in connection with the "offset-balance of payments" situation. Mr. DeFrancis clearly indicated that he felt that by getting the contract arrangements up to the 15-year \$100,000 level he would not have to negotiate for additional compensation when special services were performed and were successful to the substantial benefit of Northrop.

(Crim's notes make reference to either a negotiation or a belief on his part that the contract benefits should be 1/10th (of something) or \$500,000 predicated upon the success of the hard affect - Mr. DeVos and I are not sure what this means but it could be the 1% of the fifty million German support efforts on the P-5-30.) (See also Page 3 of Falkenhagen's memo.)

In connection with his medical problem, Mr. DeFrancis said that he had an operation in 1973. He said that he did not think his medical problem would preclude him from serving Northrop; he said that he could not be sure he would last fifteen years but he assumed that was the reason Northrop put in the clause in his contract that the payments stopped in the event of his death.

It was at this point that Mr. Willens talked with DeFrancis about his basis for charging for services. DeFrancis made the statement that as far as time spent on the Northrop engagement, he felt that during the "offset" negotiations, he spent 100% of his time for three to four months. He said currently his time on Northrop runs something in the neighborhood of 20 to 25%.

At this point we broke for lunch and had lunch downstairs in a private area of the dining room where we could continue our conversation.

During lunch Mr. DeFrancis made the statement that he never returned any funds to Northrop.

He said that he had had no contact with Northrop representatives concerning the nature of our investigation except the telephone call to make arrangements. He went on to say that he had not received any materials from Northrop regarding the matters which were considered in our investigation except for a request from Jones regarding information on EDC. He said that he wrote Mr. Jones a letter and gave us a copy of it. The letter deals with his understanding of the EDC situation and its current status.

In discussing the matter of telephone conversations and other contacts with the Northrop people relative to this investigation, Mr. DeFrancis said that he did receive one telephone call from Mr. Gold (Allen's attorney). Later while discussing the cash payments by Mr. Allen to Mr. DeFrancis, DeFrancis said this is what the telephone conversation related to. Mr. DeFrancis said that he told Mr. Gold that he felt it was not proper for him to discuss this matter and left us with the impression that that terminated the conversation.

Mr. DeFrancis said that he had never made any political contributions for or on behalf of Northrop. He repeated this statement and said unequivocally he had never made any such payments, and had never been asked or directed to make such payments. Further, he said that he had never returned any funds to Northrop, or to any of its officers or employees.

We discussed a confirmation that was being requested of Mr. DeFrancis with him, and explained that it was somewhat expanded from the previous confirmation that was obtained from him (it covers the period of 1974 to date and also goes back to the beginning of the DeFrancis, Northrop relationship and contains a schedule of payments which we want Mr. DeFrancis to confirm). In talking about the confirmation Mr. DeFrancis looked it over and said that he saw no problem and would get the confirmation back to us within twenty-four hours. In this connection he is also to send a statement of his expenses to date (the last expense report apparently was sometime in 1973) and also give us an explanation of two "legal fee" charges in his list of payments which we provided him. These legal services were in January 1969 for \$10,000 and in February 1969 for \$12,500. He said that it was his recollection that they had to do with the Indonesia and the CCC matters, respectively; he said that he would look into his files and give us a written communication on this.

On several occasions during the interview Mr. DeFrancis was asked or made reference to the contacts he had with Northrop. He said at one point that 99% and later revised it to 95% of his contacts were with T. V. Jones (and 98% of these are

oral). He said that the balance were with people such as Millar and Holcombe on Indonesia and with Lord and Bradley on the early Siemens potential arrangements, looking for possible joint venture areas. In this connection he said that he did not have anything to do with the INTS deal.

Mr. DeFrancis said that he had not made any payments at Northrop's direction. He went on, however, to say that he did make certain cash payments which he cleared with T. V. Jones. He said that he did not consider getting Jones' concurrence in making these payments as making them at Northrop's direction. He made reference to the fact that he had made payments to a Dr. Bach, apparently in connection with the possible joint ventures with Siemens. He read to us from some correspondence he had from Dr. Bach indicating his disappointment at not receiving proper recognition for his efforts in this regard. DeFrancis said that he took it upon himself to try to correct the situation and read from a letter he wrote Bach in response. In any case, DeFrancis made reference to the fact that he kept a type of cash fund which "everyone occasionally needs to have."

In this context, DeFrancis said that Northrop had never directed him to employ or engage any one as a consultant. DeFrancis went on to say, however, that he had from time to time employed people to do certain things for which he made cash payments for their services. He said that these people were of the type who would not want their names associated with Northrop and that this sort of procedure facilitated utilizing their services. Again, he said that he would always clear these situations with T. V. Jones in advance. Again, he said that Jones' concurrence did not constitute in his opinion a direction by Jones to make the payments.

At this point Mr. DeFrancis got into the matter of the cash payment to him by Mr. Allen. Mr. DeFrancis said that on Dec. 13, 1978, he received \$40,000 from Mr. Allen in New York City. (In this connection, it should be observed that this is the same payment as Allen describes as \$60,000" which he gave to DeFrancis. Further, this is the money which Mr. Jones described as a request for \$75,000 in our earlier

discussions with him.) In any case, Mr. DeFrancis said that he had requested \$60,000 but that he had only received \$40,000. He said that as far as he was concerned the matter was closed and he did not consider that Northrop owed him the additional \$20,000. In explaining the need for the \$60,000, he implied that a portion was to cover Northrop's share of fees he has or is paying to a Mr. Russ Blanford (a former two-star General who was setting up a law practice in Washington - apparently the consultant or lobbyist type practice). Mr. DeFrancis said that he had received a call from Mr. Blanford describing his new practice and went on to say that Blanford represented a number of companies including Fairchild Hiller. He said that Mr. Blanford wanted to represent Northrop and he (DeFrancis) questioned how this could be done since Fairchild Hiller was a competitor of Northrop's in connection with the AX contract. As it turned out, Fairchild Hiller got the AX contract particularly, according to DeFrancis, because of Blanford's efforts and Mr. DeFrancis said that he did not want this to happen to Northrop in connection with any of the other prospective contracts it might have where Blanford is involved. Apparently Blanford also represents one or two other aircraft companies, he mentioned Lockheed as one. In any case, Mr. DeFrancis said that he, in his judgment, deemed it advisable to employ Blanford for Northrop's "protection." He repeated on several occasions that this was his appraisal of the situation. He did this through the media of an air charter company which he either owned or owned a part in and was the Chairman of the Board. The name of this company is United Governmental Services, Inc. In any case, the employment of Blanford for (five years at \$1,000 per month or \$60,000) by United Governmental Services, Inc. was, in DeFrancis' opinion, something like two-thirds for the benefit of Northrop and one-third for the benefit of United Governmental Services, Inc. (On this basis he was due something like \$40,000 from Northrop.) The payments which he had made to Bach and others, as referred to earlier in this memorandum, made up the rest of the \$60,000 he had requested. Again, he stated that in spite of the request being for \$60,000 and that he only received \$40,000, he was not going to pursue this with Northrop to collect the additional

\$20,000. Also, it was at this point that he made the reference to the fact that the cash payment was the subject matter of the telephone call which he had received from Mr. Allen's attorney, a Mr. Gold. Incidentally, we asked Mr. DeFrancis whether or not the money was counted or whether or not any receipts were given and his answer was "no." He said that he carried the money in four \$10,000 packets - two in the inside right and left pockets on his coat and two on the outside side pockets of his coat.

In connection with the cash payments handled by DeFrancis, one other observation can be made. Mr. DeFrancis said that some people don't want to be identified with Northrop, thus the need for his making cash payments. DeFrancis said that in this way he served simply as a conduit for movement of the funds from Northrop to these individuals. In talking about the payments comprising the \$60,000 requested of Northrop Mr. DeFrancis said that a Dr. Eddy Hess got the other cash payment beside Dr. Franz Josef Bach.

We did not really clear with DeFrancis as to whether or not he wanted cash. If this is considered important we can clear this in a telephone call with DeFrancis.

The "Project Italy" was referred to in the list of payments to DeFrancis. He said it had to do with the employment on a "one time" basis of an Italian consultant for analysis and report on the Lockheed Lancer which apparently was supported by Italy. Mr. DeFrancis indicated that he had wanted to engage this consultant in connection with this matter. He went on to say that the consultant agreed to do this one time project, but that he thereafter wanted \$25,000/year for his services. It was decided by Mr. Jones that he would not be engaged since Northrop apparently had adequate representation in Italy.

The following comments relate specifically to EDC.

Mr. DeFrancis said that Gore drafted the 1967 memorandum (which refers to the 10% arrangements), he said that he had not wanted this type of a deal but had preferred the two-year \$50,000 contract which apparently he received. Mr. DeFrancis indicated that the 10% arrangement was based on a suggestion by Mr. Jones. Apparently Mr. Jones

had indicated to Mr. DeFrancis that he would like for him (DeFrancis) to be on a percentage basis with respect to the F-5 sales program. These memoranda which were drafted back in 1967 were, according to DeFrancis, merely Northrop internal documents and were never agreed to by him. He said that he only agreed to the two year \$50,000 contract which he received.

The September 22, 1969 agreement calling for sales participation by DeFrancis was discussed next. We indicated to Mr. DeFrancis that we had copies of the signed agreement. He said that this 9-22-69 agreement was identical to a Lockheed arrangement and that he and Mr. Jones had prepared it jointly. He showed us the Lockheed agreement from his files (it was a weak xeroxed copy with pencil changes to reflect Northrop instead of Lockheed as one of the participants). He said that this was the Lockheed Star Fighter (F-104) type arrangement. He talked at length about the Lockheed arrangement as being one that could change the "dismal experience" of Northrop in obtaining contracts overseas. He commented about the fact that up till that point in ~~time~~ the return on Northrop's effort was quite low for the amount of time and money expended. Thus, the Lockheed arrangement was considered as a solution to this experience. Throughout the conversations Mr. DeFrancis spoke highly of the Lockheed type arrangement (which is what the EDC contract is) and said he would recommend it for use in connection with the YF-17, if that gets into production.

In talking about Northrop's experiences in making sales overseas (or the lack thereof) Mr. DeFrancis commented several times about his having been instrumental in changing Northrop's posture overseas and in teaching them how to deal with foreign markets. He made reference to changes in the German office and also to the operations in Paris where they cut back from a full scale U. S. type sales office. DeFrancis indicated he believes in using local people on the local scene and to lesser degree using Northrop sales people imported from the U. S.

According to Mr. DeFrancis, Mr. Jones wanted him to set up the sales organization in foreign areas, because he believed DeFrancis knew how to get things done. DeFrancis did not want to get into the mechanics of doing this and he did not want to go through with the September 22, 1969 contract with him because he thought it would reduce his effectiveness. (It should be noted that this agreement was signed but according to DeFrancis never implemented.) Thus when EDC was formed it was a key in DeFrancis' thinking that they arrange to replace him with someone with whom he had no prior connection. On this basis DeFrancis obtained the name of Dr. Froriep whom he had not met previously. This was based on numerous recommendations he obtained in Italy and Switzerland as well as from his own bank. DeFrancis said that Froriep was also recommended by the American Institute for Economic Resources of which he (Froriep) is a member. The Institute for Economic Resources is headed by a Colonel Heywood. Based on this, and the other recommendations he had received, Dr. Froriep was the one selected to head up EDC. DeFrancis went on Jones' behalf to visit with Dr. Froriep. The basic arrangement was that EDC was to operate on a percentage of sales and against this \$200,000 was advanced. The EDC contract was the outcome of DeFrancis' visits with Froriep. It contemplated accomplishing the same things that DeFrancis would have done under the 1969 agreement.

This was the follow on to the 1969 agreement which DeFrancis did not want and hence worked with Dr. Froriep to set up independent sales organizations.

During this past summer EDC came to DeFrancis and said that they wanted some money based on the sales of the F-5-E and/or F-5-21 fighters. DeFrancis told them to go see Jones. All contacts with EDC and Northrop had been handled by DeFrancis (and vice versa) that is, DeFrancis had set it up, made the arrangements with Dr. Froriep, etc. It should be kept in mind, he said, that the purpose of EDC was to provide an independent sales organization. (Northrop has its own sales and marketing organization operating in the same area and the function of EDC is not to interfere with the Northrop efforts. Hence, EDC was to be a fully independent sales organization.)

DeFrancis originally provided them with data on the 5-21 to work with and said that he had provided them little in the way of technical information after that. (He pointed out that when the 5-21 first came out it was for use by the Vietnamese Air Force and said that you could look to the Congressional Record for discussion of the aircraft for indication that it was not highly regarded. He said its benefits were that it was simple to operate, etc., but not as sophisticated as the F-4. The Koreans were offered some 5-21's and turned them down. He said that this was also indicated in the Congressional Record.) In any event he stated that the 5-21 was not looked upon as an aircraft of any great promise.

DeFrancis said that now the program is very successful and has substantial income accruing to it, it has to be viewed very differently. He was asked by Mr. Crim the question, "How do you know whether the success came from the Northrop sales effort or the EDC sales effort?" DeFrancis said that cannot be answered. He believes that the success is brilliant, but cannot measure whether EDC caused it or what impact the Northrop organization may have had on this. He said that success in one country has an impact on its acceptance in other countries and indicated that early success in Iran may have contributed to its successes elsewhere. DeFrancis had indicated earlier that at the early stages EDC was set up primarily to promote the sale of the 5-21 in Iran.

DeFrancis said that he had known at the time that EDC was formed what he knows today, he would have kept the EDC deal and functioned under the original contract but that he never visualized the success that it would obtain. He said that in his view that, at the time, \$100,000/year for fifteen years looked far better.

According to DeFrancis, EDC (as a Lockheed concept) is a non-subsidiary organization and is not directed by Northrop. Its purpose was that it would operate independently of any direction. Consequently DeFrancis could not say who now owns the stock, but per DeFrancis through his discussions with Froriep, he understands there are some other persons who have worked with EDC that are included in stock distribution plans. He doesn't know if they are ministers of other countries, or

otherwise, but he believes various people may own shares under the stock distribution arrangement.

DeFrancis said that he was not interested, even, in who the original stockholders were but that Dr. Froriep was the key man. It was up to Dr. Froriep to set up his own organization and to find the people he needed.

At this point, DeFrancis gave what appeared to be a rather comprehensive description of the theory of the Lockheed or EDC type arrangement. He said that it lets people in each country work for themselves. In effect, enough money is put into the company (in Northrop's case \$200,000 was put into EDC) to cover each person's out-of-pocket expenses. Apparently each person recruited by the EDC organization is promised that he will receive his out-of-pocket expenses and in addition a share of the stock in EDC so that he is in effect working for himself and the benefits he achieves accrue to him through his stock ownership. He said that it was not necessary that they know a lot about the technical aspects of the airplanes they are selling. As a matter of fact, DeFrancis went on to say, "I don't know a damn thing about an airplane except the nose and the tail." He said this theme would apply to the EDC people. The point as to Northrop is that they look only to the benefits derived from the success of the program rather than to developing the typical sales (technically trained) type organization that would be customary in this country for the sale of say, automobiles or other products.

De Francis emphasized that he never saw Froriep until he went to him regarding the organization of EDC. He said he had no professional, personal or other prior contact with the man, but he knew that he had to get a man of impeccable international reputation and based on the recommendations given to him by others, who were knowledgeable in this matter, Froriep was selected.

In response to direct questions, DeFrancis said that he had no financial interest, direct or indirect, in EDC. He said further that he had billed them no fees, they owed him no fees, and that they would not be billed any fees by him. He said that he had received no money from them in any way.

DeFrancis, after considerable discussion of the matter, made it clear that EDC was not a consulting organization. It is not a situation similar to his, where Jones or others may look to him for advice and look to him on a consulting basis. DeFrancis said that Jones and Northrop are not looking for feed-back from EDC but only the results that are accomplished. Hence, while DeFrancis is in regular contact with Jones, and advising him on a number of matters, he has not reported back to him on EDC's operations. He stated further that EDC does not report back to him. Thus, he said, it had been a long time since he had any contact with EDC or its representatives until Froriep's visit mentioned above, when he came to point out that he was unhappy that they had not received, as yet, any of the percentage payments that had accrued to them for sales of the aircraft.

This distinction that DeFrancis made is important to keep in mind for as mentioned above, no one is looking for information back from EDC, and consequently there is no continuing contact by anybody in the Company with any of their representatives. The Company is not interested in knowing how EDC operates and who they are in touch with, but can only measure the benefit of EDC by sales which occur - and then only indirectly because they do not know whether it is their own efforts or EDC's efforts that created the sales benefit.

In discussing the EDC setup, Mr. DeFrancis said that he did not know either I. Isler (Frau Ida) or R. (Rudolph) Kleiner. He agreed with our assumption that they were very likely only nominees used for the purpose of having EDC incorporated. The only person he knew was Froriep whom he had recruited to head up the EDC organization. He went on to say that he was not sure who the shareholders were in EDC but he assumed that Dr. Franz Bach and a person whose name sounded like Theo Benehum (of GE) had received shares under the stock distribution arrangement of EDC in connection with their sales efforts in Iran. (It may be that this person referred to just previously as being with GE, may not be with them presently or may have only been some type of a representative.)

The copy of the letter which Mr. DeFrancis gave us dated Aug. 9, 1974 contains a number of comments that should be read in conjunction with this memorandum.

In connection with an attempt to again pin down some direct way of measuring the benefits from EDC, we asked how their efforts could have resulted in sales in Brazil, for example. Mr. DeFrancis' answer was that he did not really know but it was his feeling that there were world-wide benefits from the organization in that it created added incentive to the shareholders of EDC for sales to be made in other countries, and therefore enhances their desire to be effective in their participation in EDC. He frequently referred to the fact that Northrop had previously been unsuccessful in its overseas efforts. He mentioned particularly the "pat" contracts that they had set up in Indonesia but lost through what he said was their bungling.

One final thing in talking about EDC, DeFrancis made the point that Northrop does not want reporting, paper work, etc. from EDC, only the sales benefits. It is for this reason that there is actually no reporting by either DeFrancis or the EDC people directly to Jones, according to DeFrancis.

At one point in the conversation we asked DeFrancis if he functioned on Capitol Hill as he had indicated he did with respect to affairs in Germany and other parts of the world. His answer was no.

In response to the question about his knowledge of people such as Weisbrod, Gerritsen, ~~xxxxxx~~ Roosevelt, and the others listed in Jones' narration, he said that he did not know any of them except Stehlin and Roosevelt. His comments regarding them were of no consequence.

With regard to the Parkinson discussions, his recollection tends to follow along the exact lines of Mr. Willens' chronology. In the copy of the chronology referred to are noted the various times of the interviews with Parkinson, Bergen, etc.

In response to the question of whether or not he was aware that there were

any problems relating to this matter (i.e. the \$100,000 of payments to CREEP), Mr. DeFrancis said that it was his opinion that everything seemed to be proper and that he had no knowledge that any of the documents were back-dated or in any way falsified. He said that Bergen did not go to the conference with Parkinson because, in DeFrancis' opinion, this would be an "overkill." We did not pursue this question any further. (In reconsidering the conversation the matter of a question has arisen as to whether or not this opinion about the "overkill" was DeFrancis' or a combined decision. We recall that Mr. DeFrancis did make reference to the fact that the participation by a Los Angeles lawyer in addition to a Washington lawyer (DeFrancis) did appear to be a little too much for the situation which in his mind was proper in all respects.)

With respect to the last meeting that DeFrancis had with Parkinson which occurred on Christmas eve, 1972, Mr. DeFrancis said that they were attempting to learn whether or not, in response to the court order obtained by the common cause group, Parkinson and the others involved from the CREEP side had actually turned over the confidential list containing Jones' name. Mr. DeFrancis said that he had seen the list at one point and it included something to the effect of "Luxembourg - Jones - \$100,000." He said that they talked about this for a considerable period of time (he mentioned 45 minutes) and at the end he asked Mr. Parkinson if he was ever going to give him the answer to this question and he said that Parkinson's response was, "If you think I'm going to tell you whether or not I followed the court's instructions or not, you are wrong."

We had a general discussion about bribes and graft in the United States as compared with other countries. DeFrancis said that in his opinion the situation was present at least insofar as the U. S. Military was concerned. He said that for approximately a year after leaving the service an officer could be effective in helping on various matters. He went on to point out the many officers who had taken positions

with companies following their retirement. As to the operations in other countries, he said this varied on a country by country basis and mentioned the operation of "boustas" in Mexico. He cited an illustration of the ownership of a large tract of land which apparently was being encroached on by Mexican "squatters" which he implied was because the owners of the tract of land would not make payments of the Mexican "boustas." He said that he had another client, or knew of another company, who owned land where payments of the boustas were being made and such encroachments did not occur.

In connection with the review of the comments regarding EDC, reference is made to the answers to some of the questions which may contain certain additional information not included. For example, DeFrancis said that the EDC arrangement was aimed at Iran as the Number One country. He said that Iran was the only one that expressed any interest in the Northrop International Fighter and the "follow on successor aircraft concept" of Northrop's.

The separate memorandum, prepared by Mr. Falkenhagen (dated September 9, 1974) and which is attached to this memorandum, should also be read as an integral part of the foregoing comments.

PRIVATENORTHROP CORPORATIONMEETING WITH FRANK DeFRANCISSEPTEMBER 9, 1974

Ray Crim of E&E, BHD and OMF of PW, and Howard Willens of Wilmer, Cutler, met with F. deFrancis at his office in Washington, D.C. on September 9, 1974. The meeting began at 11:00 a.m. and concluded about 6:00 p.m.

Ray Crim opened the discussion by outlining briefly the scope of the investigation and the respective roles of E&E, PW and Wilmer, Cutler. DeFrancis appeared to be somewhat relieved when he heard that the investigation's effort was not controlled by the SEC but was designed to bring out the facts necessary to satisfy the SEC's interest as to the necessary disclosures to the stockholders via the proxy statement. The following summary represents my best recollection of the relevant comments made by deFrancis in response to questions or in his desire to explain his relationship with Northrop:

- I will review the E&E confirmation request regarding the detailed listing of "fees and expenses" paid me by Northrop since 1967 and reply within a couple of days. The expense reporting from August 1973 forward can also be brought up to date as soon as practicable.
- There are various areas where I might have to protect client privilege, particularly with regard to other deFrancis clients. I shall let you know if I have to do so. (Crim and DeVos explained that deFrancis cannot rely on having this discussion "cloaked" and that the E&E and PW workpapers would very likely be subject to subpoena. Willens emphasized that no one present should ask deFrancis to reveal information re other clients and we would respect privilege re his other clients.)
- I am very interested in maintaining my good relationship with Northrop for various reasons, including the fact that I have two brothers-in-law employed by Northrop (Rick DeLassaso and Leon Gendrieu?).
- Northrop was cognizant of my representing the German government as sole U.S. legal counsel for the last 22 years; Northrop is the only foreign client I ever represented in Germany; it is unusual to have this size firm (sole partner at the present time) represent the Bonn government; I have grown and developed like the German government from the

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time the allies handed over the authority to Adenauer. Why did I choose to represent Northrop? It was not a matter really of Northrop choosing me. Over the years of experience with the German Embassy, I knew, of course, that Germany had bought the Lockheed F104 Starfighter; I am no airplane technician. In those years, I knew Heinz Krehlen very well when he was charge d'affaires here; he is now Ambassador to the Common Market. It became clear that the Starfighter was too sophisticated for the German use; most of the 103 Starfighters lost out of a fleet of about 450 were downed by pilot error. I met Jim Holcomb and Glenn Lord; they came to see me because I represented the Bonn government. It was clear Northrop's German representative (Adolph Gallant) did not get to first base. I became to realize that the Northrop aircraft under development in the sixties (Cobra P-530) had a particular concept, gradual development and represented a generation of aircraft. I agreed to represent Northrop, provided I would divulge my representation of Northrop to the German government - which I did; such disclosure was not in writing - besides, I don't fall under the "Strauss decree" because I am not a seller.

- I recognized in those years that the Free World would see a necessity to replace the F104; there were only two viable alternatives - the French Mirage and the P-530. Germany made a determination to enter a multi-national contract regarding the MRCA development sponsored by the British; I attacked the MRCA with every fibre of my being, knowing that except for two nations, nobody would support it; the British wanted nuclear capability which the Dutch or Belgians, for example, would not be interested in; I believed I could serve two clients (Germany and Northrop) to the best of my ability; on the sub-cabinet level, within the framework of "hard offset", Germany had approved \$60 million to assist development of the P-530 - this was a lot of hard work for me; Henry Kissinger advised Laird and Nixon not to support the Nitze letter (which endorsed the P-530 concept) because the Europeans should develop a European solution with the MRCA (it should be noted that DeFrancis took considerable time, at his repeated insistence, to expand on his "value" to Northrop and on the significance of his contacts with the German government).
- Based on the work effort expended (\$1 1/2 to 2 billion development of MRCA), the question of MRCA as follow-on aircraft to the F-104 is really out; at significantly more than \$10 million a copy, it would also be too expensive. (DeFrancis also draws attention to Herald Tribune article of 8/28/74, "Arms Deal of the Century", which we acknowledged having read previously; he seems rather proud of having assisted Northrop to get an opportunity for winning a \$20 billion deal.)
- What do I provide for consultant fees? I thought I told you all about it this morning. In 1967, I got the contract for two years

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at \$50M per year; in 1969, Jones came to me and offered a higher retainer based on work performed; I thanked Jones, but for tax reasons (see my letter of 3/14/69), I contracted for the \$50M retainer for the next four years. I was never interested in contingent fees or percentage deals. In 1971-72 period, I tried to renegotiate a more satisfactory contract; I thought I had obtained a pre-emptive role for Northrop (see hard offset deal), but Jones did not seem to appreciate my position and nothing came of it then. In 1973, when my 1969 contract expired, Jones offered a seven-year contract of \$100M a year. I rejected it because I believed I was worth more than that. I demanded a 15-year contract. I remembered the 1971 attempted negotiations - they were a "damn poor way" of dealing with my extraordinary work; the \$50M retainer was covering my usual work only, but my effort expanded on getting the potential \$50 to \$100 million "offset" tentatively arranged which called for extraordinary fees; I could not anticipate that Laird eventually agreed to barracks rehabilitations or soft offset only. During 1971-72, we had several drafts of contracts which were never executed; in my letter of August 4, 1971 to Jones, I discussed my extraordinary work and explained that I did want to predicate my fees not on success, but on work effort; Jones recommended 4% of 10% of the German offset effort per Jones draft of 5/28/71; I did not want to involve % payments (it should be noted that during the discussion of his contractual relationship, deFrancis omitted any references to the 9/22/69 % agreement with deFrancis nor to the 9/2/71 agreement with EDC nor to the memos of understanding re Cobra %'s in 1967).

- I do not charge my clients based on time. I get into political; economic areas; however, I consider myself also as legal counsel to my clients; as a rough guess, I spent probably 25% of my time over the years on Northrop.
- In 1973, I spent a great deal of time in the hospital; I had to determine which clients I would continue to serve, how to reduce or effectively assign my workload; that's when I decided Northrop would have to give me a contract for as long as I would practice law (15 years) or I would have to entertain offers by other manufacturers.
- As far as political contributions go, I have never made any on behalf of Northrop, nor have I been asked to; I have never returned funds to Northrop.
- I have had no communications with Jones re this investigation, except for request resulting in my August 9, 1974 letter. I should mention that Mr. Gold (Allen's attorney) called me on some matter which I considered subject to privilege; the conversation took no longer than three minutes. (Note: deFrancis did not offer to disclose the content of this conversation)

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until later during the afternoon when the \$60M cash question was discussed.)

- Somebody at Northrop alleges that the 15-year contract was drawn up in a hurry? That is not so; it was discussed over a period of time; here is a copy of a draft dated February 19, 1973 which covers seven years; it is true that it was rewritten during the day I stayed in California to extend it to 15 years.
- I have never made payments to others at the direction of Northrop. I have been reimbursed for certain payments with which Jones concurred. Northrop has never directed me to engage consultants. I have called upon people where I thought it in the best interest of Northrop - within my discretion.
- The \$10M payment re Project Italy was made to a one-time consultant in Italy; this man had worked for Lockheed on the Lancer project and was a potential consultant for Northrop, but Jones did not want him full-time; he was dropped after this project.
- The \$10M and \$12.5M payments to me which are marked "legal services" relate to the Commodity Credit matter in Iran and my work in Indonesia; I can show you my files if you wish to see them (we declined to inspect the files).
- As further illustrations of the special way I service my clients, I wish to give you two more examples: payments to Dr. Bach and to Blandford.
- After Dr. Bach had provided the contract for Page to meet with the Siemens top management in Europe, Bach was extremely disappointed (which feeling I shared) about Page's inability to utilize the entree with Siemens for potential world-wide joint ventures; I felt I had to compensate Dr. Bach for his efforts (deFrancis also indicated no connection with the INTS contract).
- Gen. Blandford came to me and indicated that Northrop should retain him as a consultant; because of his apparent competing relationships (e.g. Fairchild Hiller), I thought it best to keep him outside of a direct relationship but still on our side; accordingly, I contracted with him in connection with my interest in a charter airline service, for five years at \$12M a year.
- How did I get reimbursed by Northrop? I did not receive the \$60M I thought was due me; eventually I got \$40M. Why is this not included on the E&E list of fees and expenses paid to me? Well, it was in cash; Jim Allen gave me \$40M cash in New York on 12/13/72 (deFrancis verified date by reference to his "record book"; (Note: this date is also confirmed by entry in Northrop's plane log.)

- (It should also be noted that deFrancis was extremely defensive about admitting to these cash transactions; he said it could probably be considered "rather stupid", but it was part of his way of serving his clients; he considered himself a conduit in Northrop's best interests; in retrospect, he was not sure whether he would handle it the same way; however, certain people deserved being paid. In answer to a question, he stated that no more than two to three people were paid in cash by him. Based on the sequence of the preceding statements, I assumed that he was referring to Blandford, Dr. Bach and another individual in Germany, probably Dr. Hess.)
- (When it seemed apparent that deFrancis was not about to discuss certain key documents involving his past relationship with Northrop, we raised questions re certain 1967 memoranda, the 9/22/69 contract and the 9/2/71 contract with EDC.)
- The 1967 memoranda which considered potential deFrancis % participation in the future P-530 sales to Germany are really internal documents and do not represent contracts. (Note: see George Gore memo of 4/24/69 and TVJ memo of 8/25/67.)
- Did I prepare the 9/22/69 agreement? No, I did not. You were given to understand that Northrop's legal department did not participate in drafting it? That's correct. I put it together but did not prepare it. I simply inserted Northrop for Lockheed and deFrancis for Weisbrod - this contract was Lockheed's brainchild and we were trying to catch up to their methods of doing business abroad; I was responsible for increasing Northrop's sophistication in European markets; for example, we changed the structure of the Paris office and improved the sales potential significantly. You should know that I became to realize that my own position was not to be within the framework of my heading it up. Therefore, this agreement was not considered "implemented" (deFrancis acknowledges, however, it was fully executed).
- When we considered the formation of EDC (Economic & Development Corp.), I wanted somebody to head it up without previous connection with me or Northrop; Dr. Froriep was recommended to me by my contacts abroad; I had not known him before; in our circumstances, you are far better off with an independent organization; if it looks unusual, remember it's the Lockheed contract; the concept was to have EDC not subject to the control or direction of Northrop; I was aware of the poor international marketing effort at Northrop - this was designed as a vehicle to improve the effectiveness of the sales effort - EDC was not intended to coordinate with regular sales force - EDC does not have to report to Northrop. (At this time, deFrancis also furnished us a copy of 8/9/74 letter to TVJ regarding EDC, which we had not previously seen.)

-4-

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- When we considered the formation of EDC (Economic & Development Corp.), I wanted somebody to head it up without previous connection with me or Northrop; Dr. Froriep was recommended to me by my contacts abroad; I had not known him before; in our circumstances, you are far better off with an independent organization; if it looks unusual, remember it's the Lockheed contract; the concept was to have EDC not subject to the control or direction of Northrop; I was aware of the poor international marketing effort at Northrop - this was designed as a vehicle to improve the effectiveness of the sales effort - EDC was not intended to coordinate with regular sales force - EDC does not have to report to Northrop. (At this time, deFrancis also furnished us a copy of 8/9/74 letter to TVJ regarding EDC, which we had not previously seen.)

- I negotiated the contract with Dr. Froriep, EDC started with the retainer of \$200M; I don't know how much EDC has earned in commission; as explained in my letter to TVJ, Dr. Froriep came well recommended to us; he does not report to me; I have no relationship (consultant or otherwise) with EDC; the only time I was involved subsequent to incorporation was when I recommended that Dr. Bach and Theo. Bennahum could help in the aircraft sales effort in Iran; I have no direct or indirect ownership in EDC.
- I gave up the 9/22/69 contract to stay independent of the sales organization to be formed; of course, I was not Santa Claus; at the time, I did not recognize the eventual success and sales results of the F-5E program; in retrospect, I can say it probably was one of my biggest mistakes in my life to give up that contract - if I had known all this in advance, I would have hung on to it; no one had the slightest idea that this aircraft could be sold with U.S. support anywhere except in Vietnam - you can check the Congressional Record; Dr. Froriep can utilize the stock of EDC to advance the financial interests of that corporation; EDC does not have to report to anyone; the success of the sales effort speaks for itself.
- I do not know I. Isler or R. Kleiner - you are probably right in your assumption that they are simply signing up to satisfy the incorporation requirements calling for a minimum of three stockholders.
- You cannot see any service EDC has rendered to Northrop? Just look at the success of the program. You cannot directly measure it, nor do you want to. The success is there.

O. M. Falkenhagen
Los Angeles
September 9, 1974

Frank J. DeFrancis

SUITE 912
WATERGATE OFFICE BUILDING
2800 VIRGINIA AVENUE, N.W.
WASHINGTON, D. C. 20037

CABLE ADDRESS
"DELAU"

(202) 338-6100

May 17, 1974

Mr. James D. Willson
Vice-President - Finance
Northrop Corporation
1800 Century Park East
Century City
Los Angeles, California 90067



Dear Jim:

Reference is made to our telephone conversation in which you requested that I send you in synoptic form the highlights of my work activity on behalf of the Northrop Corporation during the years 1972 and 1973. In order to be concise, yet afford a clear understanding of that activity, I will section such work on a quarterly basis.

My endeavors for Northrop have primarily involved matters which revolve around its aircraft programs, namely, the International fighter, the F-5E and its two place aircraft the F-5F, and the Cobra projects. There has been some activity covering certain other projects which I will also touch upon.

January 1 - March 31, 1972. The marketability of the International fighter in variant foreign countries and the important effect that such acceptance has in forming a proper foundation for the success of the follow on aircraft, the Cobra, to a large extent could well depend on the evaluation and accreditation accorded it by the various countries of NATO. In this regard, the Federal Republic of Germany has considerable weight and influence. A full scale endeavor of time and effort has been expended within all sectors of

EXHIBIT IV-B-5

Mr. James D. Willson

May 17, 1974

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the German governmental and industrial community to encourage a German financial participation within the offset and balance of payments program of a sizeable financial commitment to the aforesaid program. Meetings that were held with governmental officials during this period of time were primarily of an evaluation nature assessing the progress that had been made in promulgating this concept within the FRG-US offset meetings and conferences.

April 1 - June 30, 1972. During this period, I was requested to evaluate Northrop's position and situation in Iran both as to the over-all posture regarding the acceptability of the F-5E and the multi-national communications consortium headed by Northrop. I conducted a series of meetings on this subject with persons who are experts in the Iranian governmental and economic system and was instrumental in arranging for a conference on May 10 between them and the appropriate Northrop official. In connection with this assignment, on June 8, I went to London, England, and, along with other matters, had follow up meetings relative to this subject.

July 1 - September 30, 1972. During this time period, I conferred with several NATO officials in regard to studies being conducted within NATO regarding uniformity of weapons and aircraft systems. The major subject of discussion was an evaluation of Northrop's aircraft potential within this context. Also, a number of discussions were held with administrative and congressional personnel regarding this over-all matter.

October 1 - December 31, 1972. My work activity primarily centered around a trip to West Germany on November 21 for meetings and discussions with proper governmental officials in connection with preparing a program for possible inclusion within the upcoming balance of payment talks of German financial participation in the Northrop aircraft programs. From a review of the last

Mr. James D. Willson
 May 17, 1974
 Page Three

balance of payment agreement, it was evidenced that the offset discussions clearly reflected a difference of some \$170 million between the initial German offer and the U. S. counter proposal. In light of the increasing demands from members of the U. S. Congress that the German's contribution take the form of hard offset either in the procurement of U. S. hardware or participation in U. S. development programs, the opportunity for inclusion of the Northrop program was explored. On December 11th, I traveled to the corporate office in California for meetings with the appropriate Northrop official in order to render a personal report regarding the outcome of my conferences in Germany and to discuss variant aspects of the program.

January 1 - March 31, 1973. Developments in regard to the aircraft programs in Europe, the Middle East and South America, necessitated two trips to the corporate office in California on January 15th and March 15th for discussions and personal conferences with Northrop officials. Work expended during this period included assisting in the drafting of communications submitted to persons at different governmental levels, both foreign and domestic, advancing the International fighter and Cobra programs.

April 1 - June 30, 1973. "An example of the type activity taking place in high government circles regarding aircraft programs was illustrated by Italian Foreign Minister Andreotti's discussion with his U. S. counterparts that Italy is seriously considering the development of the Lockheed Lancer. The impact of this event on the procurement of the International fighter in such countries as Turkey, and the cooperative development of the Cobra program in such countries as Belgium and Holland, is patently clear. My recommendation to engage counsel in Italy for the specific purpose of reporting on this development and the seriousness of the Italian proposal translated into actual fiscal participation was adopted. A trip to the corporate office on April 24th

Mr. James D. Willson
May 17, 1974
Page Four

primarily centered around discussion and evaluation of the report submitted concerning these developments. During this period, meetings were also held with officials of the Airport Development Division to determine what assistance, if any, could be rendered to that project.

July 1 - September 30, 1973. Conferences and meetings were held with West German and other NATO officials regarding variant aspects of the International fighter and Cobra programs. I had numerous discussions with government sources regarding developments in balance of payment and offset talks and their relationship to the Northrop objectives. On September 4th, I went to New York to meet with a Northrop official in order to personally discuss and evaluate these projects.

October 1 - December 31, 1973. Work during this period centralized around the basic projects hereinabove discussed. A number of conferences and meetings were held at all levels of government and reports relative to that activity were transmitted to Northrop. As an indices of such telephonic communication, inasmuch as my out-of-pocket billings for this period have not yet been submitted, my records reflect over eleven phone calls were placed to the corporate office.

I trust that this will provide you with the information you require.

Kindest regards.

Sincerely,

Frank J. De Francis

FJD/bch

LAW OFFICES

Frank J. DeFrancis

SUITE 818

WATERGATE OFFICE BUILDING

2800 VIRGINIA AVENUE, N. W.

WASHINGTON, D. C. 20037

CABLE ADDRESS
"DELAU"

(202) 338-8100

October 2, 1974

Mr. E. Raymond Crim
Ernst & Ernst
1801 Century Park East
Los Angeles, California 90067

Dear Mr. Crim:

In accordance with our telephone discussion today and pursuant to our extended personal meeting on September 9, 1974, this is to confirm that of the \$60,000 committed and expended in the retention of personnel for advisory and consultant services on behalf of Northrop, I received \$40,000 in currency from Mr. James Allen on December 13, 1972. As I also advised you, I have not received any additional cash funds from Mr. Allen or from any other Northrop official.

Kind regards.

Sincerely,


Frank J. DeFrancis

FJD/bch

EXHIBIT IV-B6

PERSONAL - PRIVATE - SENSITIVE

NORTHROP CORPORATION

Room 500 - 1000
 1200 K Street N.W.
 Washington 6 D.C. 20004-2520

Office of the Vice President

8 March 1967

Mr. Glenn R. Lord
 Northrop Corporation
 P. O. Box 1525
 Beverly Hills, California

Dear Glenn:

Frank DeFrancis told me yesterday (7 March) that he has sent the background paper I wrote for him to his friend in Germany. This paper was sent along with his letter requesting his friend to see what could be done and then advise when Frank should return to Germany for further discussions. Frank expects the German trip will be in about 15 days.

Prior to his return to Germany, Frank wants you, Tom Jones, Bob Gates and me to meet in California during the week of 20 March to discuss and to settle verbally on his terms of reference. Incidentally, Frank, based on the conversations you and I have had with him, is of the opinion we will not have any difficulty agreeing upon his terms of reference or compensation. If this can be accomplished, Frank would travel to Germany during the week of 27 March at his own expense. Upon his return he will advise us that our program in Germany will go and that he is the man for the job or, conversely, our program may or may not go but that he is not the man for the job.

If the program is "go", and I believe from Frank's several conversations with me that this depends on his reaching agreement with two or three top German Government officials, we would be asked to put Frank's verbal agreement in writing.

Frank has requested that we make every effort not to identify him with anyone else in the company other than the three of us (at least for the time being), and I have told him we would honor this request.

NORTHROP CORPORATION

Mr. Glenn R. Lord
8 March 1967
Page Two
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If you agree with Frank's proposal, it would be appreciated if you would arrange a date with Tom and Bob and let me know so that Frank and I can arrange our travel schedule to the Coast.

Sincerely,

James V. Holcombe

cc: T. V. Jones
C. R. Gates

GEORGE GORE

~~Destroy~~ 3 page ltr ✓

TVJ to De Francis dated
Sept 2, 1971

2) Destroy Agreement ✓

Sept 22, 1969

3) Select letter Agreement ✓
dated Sept 2, 1971

4) Destroy memo sent to TVJ
dated Aug 25, 1971

F.W. For
BOL OW

GESELLSCHAFT MIT BESCHRANKTER HAFTUNG

Mr. Frank J. De Francis
Law Offices
Boykin & De Francis
Suite 603
Solar Building
1000 Sixteenth Street, N.W.
Washington 36, D.C.
U.S.A.

OTTOBRUNN BEI MÜNCHEN
BRIEFPOSTANSCHRIFT:
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TELEX 05 22 79

IHRE ZEICHEN

IHRE NACHRICHT VOM

UNSERE ZEICHEN

DATUM

GGB/For-vr

June 30, 1967

Dear Mr. De Francis:

Thank you very much for your letter of June 15. The German Federation of Aerospace Industries and the German Aircraft Industry have in the meantime studied the possibility discussed in Paris. The subject will definitely be on the agenda during the forthcoming meetings between the individual companies and the MOD as well as the Aerospace Industry Federation and the MOD.

Whether the issue will be favorably received, however, will not only depend on whether it will be presented along the industrial and economic lines discussed in Munich and Paris, but also on the German Air Force, which has and will exercise a much stronger influence on major equipment decisions than in the past.

Already during our initial discussion I informed you about the expected Air Force attitude and since then I have had several indications that it will be quite negative.

With regard to Dr. Hess' question during a telecon a couple of days ago as to whether we consider it timely that Northrop approach the Air Force directly, using their established and proven channels, I believe that such a move would now be appropriate, since the German Aircraft Industry appears basically very interested in participating in the program. However, the principal problems seem to be the Air Force attitude and, of course, funds.

I suggest that Northrop keep Messerschmitt, VFW and Bölkow posted on its own action taken in the matter, while we will keep Northrop up-to-date on any important information we might receive. Mr. Bölkow is going to write Mr. Jones regarding this matter within the next two weeks.

BÖLK W
GESELLSCHAFT MIT BESCHRÄNKTER HAFTUNG

ZUM SCHREIBEN AN:

Mr. Frank J. De Francis

VOM:

June 30, 1967

BLATT:

2

I am enclosing a copy of this letter leaving it up to you whether you would like to forward it to Mr. Jones.

With best regards,

Sincerely,


F.W. Forster

Enclosure

cc: Dr. E. Hess
Mr. R. Seitz, Bölkow Bonn

BÖLKOW

GESELLSCHAFT MIT BESCHRÄNKTER HAFTUNG

ZUM SCHREIBEN AN:

Mr. Frank J. De Francis

VOM:

June 30, 1967

BLATT:

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P.S.

I am very grateful for your highly valuable advice on the US/FRG program. In the meantime Mr. Bölkow and I had discussions with Mr. George McGhee, US Ambassador to Germany, and Mr. John Hooper, US Minister to NATO in Paris.

A completely new development was the French brushoff to Britain regarding further cooperation on their joint VG program. Air Marshall Grandy of the Royal Air Force has already informally contacted General Steinhoff, chief of the German Air Force, indicating Britain's basic willingness to investigate possibilities of now joining the US/FRG program. We are in contact with BAC, the British VG contractor company, and we have preliminary indications that they also might be extremely interested in joining our program.

Perhaps this development will help us in our desire to continue our cooperation with the US, since addition of Britain would be a move in the direction of the international fighter development, recently proposed by Washington.

FORSTER

LAW OFFICES
Boykin & De Francis
 SUITE 812
 WATERGATE OFFICE BUILDING
 2600 VIRGINIA AVENUE, N.W.
 WASHINGTON, D.C. 20037

CABLE ADDRESS
 "BODELAW"

228-6100

July 9, 1967

Mr. Glenn Lord
 Northrop Corporation
 9744 Wilshire Boulevard
 Beverly Hills, California

Dear Glenn:

In accordance with our telephone conversation of yesterday and in order to avoid any conceivable misunderstandings, I am writing to you relative to the overall Indonesian matter. Obviously, it would be preferable to have a personal discussion so that we could review every aspect of this matter. However, at this time, in light of our schedules, this appears to be a luxury that we cannot afford. Therefore, as a somewhat poor substitute, I will try to highlight in writing certain aspects of this situation. It may be well for me to state certain definitive conclusions at the outset and then by reviewing the factual circumstances attempt to justify my rationale.

I believe this Indonesian matter lies in one of two extremes; either it is a wonderful opportunity to secure a preferred position of operation within a country, or that the Barry group has lost its effectiveness in dealings with the Indonesians since the consummation of their contract. In light of the tremendous stakes involved, it would appear to me that it behooves any company to pursue the matter as efficiently and effectively as possible to ascertain for itself the true prevailing circumstances.

C
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Page Two

Without underwriting any phase of the integrity or veracity of the individuals involved, and fully cognizant that this opportunity, if it in fact is one, is well out of the stream of normal operations, it would appear that you should take a long, hard look at the situation.

It may be well now to recap the factual circumstances leading up to the present day. My first introduction to Dr. Barry and Mr. Mabuchi of Central Economic Development Organization was brought about at the request of former Governor Tawes' Aide, Mr. Harry Rodgers. The four of us met, along with Mr. William Point, on June 15 and the following facts were brought to light: (1) that the Indonesian Government in March of 1967 gave a development contract for the exploitation of its economic resources to Cedo, this contract being signed by Mr. Monotopo for General Suharno, affixed with the official seal of Indonesia, and Dr. Barry on behalf of Cedo; (2) in addition to this contract, a similar contract covering the NAP program for Indonesia was given to Barry; (3) Barry obtained these contracts as a result of his own personal contacts with the Indonesians; (4) subsequent to these contracts the financial backers of Cedo reduced his and Mabuchi's equity position in the company by cancelling debenture bonds and issuing to themselves additional capital stock; (5) no further financial backing was being given the company and Barry and Mabuchi had exhausted their personal resources. As a consequence, they were looking for someone to either buy out the outside financial group's interest in Cedo or, if the circumstances warranted, they could secure from the Indonesians cancellation of their contracts and the placing of new commitments to another organization. It was their desire to secure financial backing for either of these two endeavors.

I advised them clearly at that time that even though this was not a matter which I would generally lend my support to, the scope of the situation and the novel aspects so warranted my discussing the matter with certain financial institutions that I have been connected with in the past. In this regard I arranged for meetings on

Page Three

June 28 with the Rockefeller banking group, who are working with us on timber matters in Mexico. I had to cancel that meeting in light of the sudden illness of my father which necessitated my leaving for California on June 25.

In a luncheon with Tom on June 27, I referred very briefly to the matter inasmuch as I had previously discussed it with Jim, and he suggested I talk about it with you. As you will recall, we discussed it on the 29th and you arranged for a meeting the following day with Sutter. At that time, you will remember, I asked that if in fact a satisfactory communications contract could be delivered to you, did you believe that Northrop might be interested in the entire economic development situation. Moreover, until this was checked out, should I refrain from my discussions with Rockefeller so as not to interest any third party until you had an opportunity for full evaluation and assessment of the Indonesian situation. Since this was answered in the affirmative, I have refrained to date from developing any further contacts with my banking people in this regard.

Now comes a matter of critical importance. Prior to my Friday morning meeting with Sutter, I telephoned Barry to inform him of my departure from the agreed procedure with the banks to the possible diverting of this to Northrop and their securing of a communications contract. In our conversation, he became agitated, stating that he had advised me in our initial meeting that he had had lengthy negotiations with General Telephone relative to the communications system and General Telephone was prepared to sign a contract with them in this regard in the next few days. I countered that I did not recall such reference but only that a contract had been let to TWA relative to transportation. I then urged him to permit me to continue my discussions with Page due to the fact that I believed that Northrop, if the matters developed as represented, could well be interested in financing and becoming a part of the development company for the entire economic and MAP program for Indonesia. As such, this could well avoid the necessity of my contacting any banking group. I further advised him

Page Four

that in this regard it would be exceedingly important for him to proceed in this manner because I could personally guarantee the integrity of the Northrop organization if they decided to get into the development company. In this connection his equity position in such a company would be preserved and there would not be a repetition of financial hi-jinks that he had heretofore been subjected to. I guaranteed the integrity of Northrop inasmuch as I told him it was this very factor which caused me to become associated with Northrop in the first place. Based upon my personal recommendation, he acquiesced to my meeting with Sutter. At that conference I advised Sutter of all circumstances within my knowledge up to that time, including the General Telephone matter. A meeting was arranged for later that afternoon, which was attended by Sutter and May along with Barry and Mabuchi.

From the point of view of time, because of the General Telephone matter, Barry requested that a decision be forthcoming by Page at the earliest opportunity. Sutter countered with the fact that inasmuch as this was the July 4th week-end and that Mr. Wahlschmidt had already left town, he would not be able to be in touch with him until July 5th.

During this meeting both Sutter and May were shown a copy of the Indonesian contract, as well as plans for a telecommunications system that were prepared by the Indonesians and given to Barry to utilize for his selection of a communications company. It developed that the Barry group required for their services the payment of \$25,000 plus 5% of all work conducted by the communications firm in Indonesia, as they stated this was their agreement with General Telephone.

As you will recall, we discussed the overall matter on Saturday on the telephone in a three-way conversation between you, Jim and myself. A meeting was arranged at my home on the morning of July 4th with Sutter so that he and I at our leisure could go over all aspects of this matter in an attempt to evaluate the entire situation. Obviously, the most suspect issue was the necessity of the payment of

Page Five

\$25,000 immediately. At that time in my evaluation with Sutter, I stated that one of the most positive developments was the fact that Barry did not want to discuss this communications matter with Page. It was only as to the possible interest of Northrop in the development company, as I outlined above, along with my personal guaranty that permitted Page's entry into the picture. In that regard I suggested that due to these motivations I felt the \$25,000 fee could be negotiated downward and if a nominal payment was made at this time, with the balance due upon the decision by Page to go ahead with the matter after meeting with the Indonesian officials personally, that I felt I could get Barry to acquiesce in such an approach. In addition, I advised Sutter that I would not at this time discuss with him the details of my financial position with Page in regard to this matter, but that I expected to conclude an understanding with Page simultaneously with the conclusion of an agreement by that company with Barry. I had notified him that in keeping with the standards of conduct that I have set for myself and my firm, I had advised Barry fully of my position with Northrop and that I expected to negotiate a separate contract with Page relative to this matter, the details of which I would inform him about.

In keeping with that understanding I had with both sides of fully advising them of every step I had taken in this matter, I telephoned Barry that evening to advise him of the results of my morning meeting with Sutter. He informed me at that time that he was frantically trying to reach me all day Monday and since my office was closed and he did not have my home phone, had no way to inform me that the previous day, July 3d, Houston of General Telephone, called him to arrange for a meeting on Thursday, July 6 so that their contract could be concluded. At this time Barry asked my advice as to how to proceed. I informed him that at 8:00 a.m. July 5th, Sutter was to meet with Wohlschmidt to go over this matter for decision and that I would meet with him at the same time to go into the details with him of the General Telephone negotiations in order to ascertain whether any legal binding commitment had been made.

Page Six

In the course of my meeting with Barry on the 5th, he showed me the most important document to date and that was a letter from the Indonesian Government to McNamara stating that Barry's group not only had a contract for economic development in Indonesia, but also had a contract relative to the MAP program. He also showed me for the first time, the MAP contract. While that meeting was in progress I received a phone call from Sutter advising me that Page had made a decision to go ahead with the matter. I told him that I had just seen documents that I thought were all-important to him and suggested that he come over with Wohlshmidt for a further meeting with Barry and Masuchi. A luncheon meeting was arranged in which both gentlemen had the opportunity of seeing the documents I referred to and detailed discussions were had relative to the General Telephone complex and the possibility of that organization working with Page in Indonesia, etc.

The meeting with General Telephone, on the basis of my advice, was postponed so that Page's lawyer and myself could hammer out an agreement acceptable to both sides. This was accomplished Thursday and the contract was signed by Page on Friday and is now in my possession.

We now come to the real issue of why in fact this letter is being written. Throughout the course of this matter certain circumstances have developed, the individual issues of which I will discuss with you personally, which have done much to shake my entire confidence. Unless this is restored, I cannot envision myself proceeding with the total freedom of action, thought and enthusiasm which has heretofore been the case. As has been stated to me in the past days in one form or another, it appears that the burden has been placed on me to guarantee in fact the trustworthiness of this undertaking. This I cannot and will not do. Certainly, you all know better than I the inherent risk in any business matter. I will even venture to say that this is the most extreme, literally "hardbrained" circumstance that I have ever become engaged in, but equally, I can say to you, I have never seen in the course of my international practice, a government give any contract of the immensity

Page Seven

and scope that it has done to Barry, and further officially communicate the knowledge of that contract to the Secretary of Defense.

This venture possibly does not even necessitate the expense involved in a trip to Indonesia since preliminary discussions may be had with Indonesian officials here. As you know, Monotopo and Surmano are scheduled to come to Washington July 14 and 15 for a meeting with McNamara. During their visit, meetings purportedly will be arranged for you and other Page-Northrop officials so that you can discuss the scope of the entire situation with the Indonesians.

I believe that the issue resolves itself down to one fundamental point -- does Barry have the position with the Indonesian Government in July that was manifested by the contracts given to him in March and the notification of those contracts that was sent to McNamara. I don't even believe Barry himself quite knows the full extent of that answer. There is no question that his ability to produce is suspect and this must be apparent to the Indonesians by now. On the other hand, if it were otherwise, we would not have the opportunity to develop this situation. If the answer to the aforesaid question is in the affirmative, there can be no question that the exploitation of an entire country stands as a distinct possibility of realization. If the answer to that is in the negative, then this medium of approach for Page in Indonesia would not be practicable.

The expense that Page has therefore is the time that has been spent plus the \$5,000 fee that is to be paid upon execution of a contract.

Frankly, Glenn, just the way I utilized my position with Barry to accept the \$5,000 rather than \$25,000 upon the signing of the contract, I could conceivably have gotten no payment to him until after the Washington meetings. In good conscience I did not feel that this was fair to him in light of the fact that he is depending solely upon me for advice in this matter and that I have so strongly urged him to deal with Page rather than General Telephone for the reasons enumerated above.

Page Eight

If in the payment of the \$5,000 there would of necessity be delegated to me the responsibility, as has been stated to me, that Page has only gone into the matter based upon my recommendation, I would prefer to drop the entire matter now. I believe that this is a business venture, with all attendant risks. However, every meeting that has taken place has been dictated by logical, rational procedure. I do not say that at the very inception this matter, in and of itself, is not highly unusual and out of the norm of the standard procedure, but, alternatively, the rewards appear to justify the risk. Nevertheless, this is a decision that only Tom, you, and the rest can make.

Concurrent with my entire feeling and of equal importance to me, is the subject of my remuneration relative to this matter. I would have expected that this would have been brought up to me rather than my having to raise it on two or three occasions without any fruitful conclusions to date. There can be no question that the enthusiasm with which I worked in the past is today curtailed to a great extent by the fact that there has been an absence of intensity of effort to finalize a formal agreement with me. This is now being repeated with the Page group and the overtones are something less than satisfactory to me. I wonder whether in fact I am just being taken for granted. I have never worked on any project that I do not fully believe in as a matter of principle. Nevertheless, I have never acted for any client on such an informal basis of understanding as has been my practice these past months. I feel that time is overdue for the formalization of relationships and understandings that I have or will have with your companies.

As we discussed, I will hold the Page contract and not deliver it to Barry until you have had an opportunity to review this entire matter and make a decision on whether you wish to proceed or not. If the decision is in the affirmative, I expect that all future developments will be handled in a proper manner. If you decide not to go ahead with this undertaking, I will return the contract to you.

Page Nine

I have advised Mabuchi of our recent telephone conversation and the fact that I will hold up the contract until I receive affirmative assurances of understanding from you. He is going ahead with a meeting arranged by Houston with them for Monday afternoon. I have their guaranty that they will not sign a contract with General Telephone until I hear from you, which I would expect to be some time on Monday, or Tuesday at the latest. I think they will keep their commitment to me if for no other reason than my anticipated help in securing the financing for the development company. I should add, however, that my personal impression of them both is that they will keep their word as gentlemen. Therefore, I would ask that I have the opportunity of hearing from you at your earliest convenience.

As we have agreed, I am sending Tom and Jim a copy of this letter so that you may have the opportunity of fully discussing it with them. I am sure that you will appreciate that there are many details that I have not gone into, which do not lend themselves to writing, but which have been very instrumental in arriving at my present personal feeling. This letter has become too lengthy as it is, however, I feel it is all-important that you have the benefit of certain of my views in writing and for the record.

Kindest personal regards.

Sincerely,



Frank J. De Francis

FJD:zc

cc: Mr. Thomas V. Jones
Mr. James Holcombe

reply refer to

NORTHROP CORPORATION**inter-office memorandum**to: **Thomas V. Jones**from: **George Gore**subject: **Procurement Regulations of the Federal
Republic of Germany**date: **August 30, 1967**

cc:es:

ref:

In our inter-office memoranda regarding the employment of Frank J. De Francis we state that commission payments to him shall be made only if that may legally be done and without penalty of any kind to Northrop. I think I should explain to you my present understanding of the German Procurement Regulations as they relate to this particular subject.

On January 6, 1961, Mr. Strauss issued a proclamation "regarding the placement of public orders within the scope of the Federal Minister of Defense." One portion of this proclamation prohibits a seller (such as Northrop) from dealing with the offices of the German Defense Ministry through a third party without the consent of the Ministry. Under this provision, it is proper for full time employees of Northrop to deal with the Ministry but a third party dealing on our behalf requires a permit from the Government. This prohibition does not apply to lawyers, public accountants, or members of other recognized free professions to the extent that they are acting only as consultants in legal, tax, industrial, economic or technical matters. The consent of the Ministry to the use of a non-employee is ordinarily accomplished merely by entering his name in a roster kept by the Defense Ministry.

Another provision of the proclamation states that "at the occasion of negotiations or contracts with buyer, seller may not grant or have granted commissions" without the written approval of the Ministry. If the seller violates this provision, the purchase price may be reduced by the amount of the "agreed upon or paid commission." The German Government also has the right to withdraw from the contract or terminate it "with immediate effect" if there is a violation of this provision or of the provision prohibiting the use of non-employees without the approval of the Government.

The validity of Mr. Strauss' decree was contested in the German courts, but this year a decision was handed down that the decree was valid and that a Minister has the right to exclude persons from personal

reply refer to

NORTHROP CORPORATION

to Thomas V. Jones

Subject: Procurement Regulations of the Federal
Republic of Germany

copies:

inter-office memorandum

from: George Gore

date: August 30, 1967

ref:

Page 2

visits to state officials and employees within his Ministry. Since this decision was rendered, the Ministry of Defense has made plans to withdraw all permits granted to non-employees. The Ministry wishes to negotiate only with the employees of the seller.

Assuming that the law continues to remain as set forth above, it would not be legal to agree to make or to make any commission payments to Mr. De Francis without securing the written approval of the office of the Federal Ministry of Defense at the time the contract or license is negotiated with the Government for the manufacture and sale of F-5 airplanes. I have seen some indication that such written approval is not necessary unless the Ministry places in the contract or license the equivalent of our ASPR clause entitled "Covenant Against Contingent Fees." I do not have enough information to verify this, but I see no justification for this exception in the proclamation and, in any event, it appears that the Ministry is now very alert to this subject and will incorporate the clause in future contracts.

George Gore
George Gore Vice President,
General Counsel and Secretary

GG:rk

March 16, 1973

Mr. Frank J. De Francis
312 Watergate Office Building
2600 Virginia Avenue, N. W.
Washington, D. C. 20037

Dear Mr. De Francis:

Under a letter contract dated May 13, 1969, we retained you to assist and advise us in planning and carrying out our international programs and activities. This contract expires by its terms on March 20, 1973. This present letter is written for the purpose of setting forth the terms of our continuing relationship.

As a consultant, you will continue to assist and advise us in planning and carrying out our international programs and activities. Your services will not extend to any of our domestic business and specifically will not extend to sales to the United States Government or any department, agency or instrumentality thereof. In the performance of your work, you will report directly to the Chief Executive Officer of the Company. You will also consult with other of our Company officers, as requested by him.

We will furnish you with such technical and other information as, in our opinion, is necessary or desirable for the proper rendering of your services. Any such information shall be deemed confidential and proprietary to us, and you agree that you will not disclose such information to third parties, except to the extent approved by us.

Nothing contained herein shall be deemed to create the relationship of employer and employee or principal and agent between you and us. You shall have no authority to commit or obligate us or any of our divisions or subsidiaries or to execute contracts on our behalf or theirs.

This consultant contract shall be for a period of fifteen (15) years commencing March 20, 1973, but shall terminate upon your death, if that occurs prior to the end of the fifteen (15) year period.

Mr. Frank J. De Francis

-2-

March 16, 1973

For the services rendered by you hereunder, we will pay you at the rate of One Hundred Thousand Dollars (\$100,000) per year, payable as follows: Fifty Thousand Dollars (\$50,000) each six (6) months, with the first Fifty Thousand Dollar (\$50,000) payment to be made September 20, 1973. In addition, you will be reimbursed for all expenses of travel and subsistence incurred by you in performing services hereunder, upon the same terms applicable to, and subject to the submission of the same documentation and justification we require of, our senior executives. Such reimbursement will be made only for travel outside the Washington, D. C., area, and only when such travel has been authorized in advance by our Chief Executive Officer. Any and all other expenses that you may incur in performing this contract shall be borne by you, except those specified in the third paragraph of this page. Your expense vouchers will be submitted to our Corporate Offices in Los Angeles and shall be subject to approval by our Chief Executive Officer.

If you and our Chief Executive Officer agree that in certain instances the services rendered by you hereunder were extraordinary and unusual, in terms of activity and effort and value to us, and beyond those contemplated by this agreement, then additional compensation will be paid you for such services, in such amount as the Chief Executive Officer, in his discretion, may determine to be equitable.

You are authorized to engage other personnel to assist you in performing this contract. Payments made to them by you will be reimbursed by us, provided our Chief Executive Officer approves in advance the engagement and the amount to be paid.

During the term of this agreement, you will not perform services of the nature contemplated hereunder for any other party competitive with us.

You will comply with all laws, regulations, proclamations and decrees of the United States Government and of foreign governments as they apply to matters of security arising in the performance of this agreement. You will also comply with all laws, regulations, proclamations and decrees of foreign governments as they apply to this agreement and the services

Mr. Frank J. De Francis

-3-

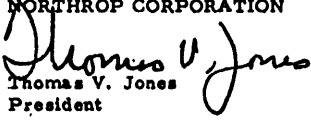
March 16, 1973

rendered hereunder. You agree to indemnify us against and to hold us harmless from all claims, loss, cost and expense resulting from any failure so to comply.

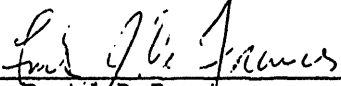
If the foregoing provisions are acceptable to you, will you please sign and return to us the enclosed two copies of this letter, thereby creating a contract between us.

Very truly yours,

NORTHROP CORPORATION


Thomas V. Jones
President

Agreed and Accepted
this 16th day of March, 1973


Frank J. De Francis

Memorandum

Northrop Corporation, Corporate Office
1105 Century Park East, Los Angeles, CA 90067

In reply refer to:

To: Thomas V. Jones

From: George Gore

Subject: Contracts For Personal Services
Longer Than Seven Years

Date: March 16, 1973

Copies:

Ref:

Under California Law, a contract to render personal services may not be enforced against the one rendering the services beyond seven years. This means that such person is not legally bound beyond the seven years and he is not legally "tied up" beyond that period.

If such person continues to perform services beyond the seven years, the compensation set forth in the contract is a presumptive measure of the compensation due him. This means that he might be able to prove that his services were worth more than the figure set forth in the contract.

George Gore
George Gore
Vice President and
General Counsel

PART B - 2 b.

ECONOMIC AND DEVELOPMENT CORPORATION (EDC)

Extract from letter from Mr. T. V. Jones to Mr. E. R. Crim, September 14, 74

ECONOMIC AND DEVELOPMENT CORPORATION

This corporation was officially set up on March 22, 1971, in Zurich, Switzerland, for the purpose of acting on Northrop's behalf in the promotion and sale of the Northrop F-5 series of aircraft. Payments to it would be made on a commission basis according to a prescribed schedule. Payments to date have been \$200,000 upon incorporation and \$50,000 paid to Mr. De Francis for organization costs.

The owners of the stock of the corporation are Andreas Froriep, Rudolf Kleiner and I. Isler. There are no American owners or beneficiaries.

ACTIVITIES

The purpose of the formation of the Economic and Development Corporation was to provide a means of highest level support of Northrop's interests and activities around the world, but especially Europe, in the support of the sale of the F-5 family of aircraft. This is deemed necessary to provide the broad and high level support at political, industrial and economic decision-making levels that are important to selection on any major governmental procurement. Northrop experience and the experience of others have indicated this is absolutely necessary to complement the direct technical and marketing efforts.

It was felt that by providing this responsibility in the hands of one international organization, it could, in turn, employ those nationals in each country best suited to achieve results.

One of the underlying factors and conditions that was a prerequisite in the organization of the Economic and Development Corporation was that it remain a separate and independent organization. As a consequence, the methods and utilization of personnel on behalf of the corporation are so structured that it is able to advance the cause of Northrop in the sale of the International Fighter not only on the basis of confidentiality, but also uniquely independent of any Northrop connection. This principle provides a wide degree of flexibility in procuring the best people for the particular assignment at hand and, in many instances, enables the securing of persons who otherwise could not be directly involved for variant reasons with Northrop as such.

QUALIFICATIONS

Each of these individuals as organizers and owners of the business are internationally respected as persons of the highest competence in the field of international business, especially Europe. For example, Dr. Froriep, the Chairman, is the European for the well-known U. S. investment advisory service, "American Institute for Economic Resources". The others are businessmen and bankers of broad and trusted ability.

FURTHER COMMENTS RESPECTING
ECONOMIC AND DEVELOPMENT CORPORATION AND MR. DE FRANCIS

When Mr. De Francis first came to Northrop, he stated that he was much more interested in participating financially in some way that was tied to the success of our aircraft sales program. At the time I said that while it was unusual, it might be worked out. It was first thought that Mr. De Francis could organize such a group as later became the Economic and Development Corporation and personally participate. The first contract that was written was written with Mr. De Francis as a principal in the organization. Then, as it became apparent that we would not be successful in selling the complete development program for the -21 to the Europeans and it was likely that it would be a U. S. funded development, I felt that it was not appropriate for an American national to participate in the benefits of this U. S. funded development program. I therefore asked Frank that he incorporate the company with no U. S. participation, that in recognition of his increased activities, we would increase his fees to the appropriate level at the appropriate time and would extend the length of his contract to compensate for his lack of participation. My reasons for feeling that it was wrong to participate were twofold: It could be questioned within the U. S. Government, but also, most importantly, I felt that Frank's responsibilities be totally and solely to Northrop, especially because the foreign organization interests would have to be in receiving commissions on sales. Therefore, there could be a complication between their short-term interest in their own return and the long-term interest of the corporation. Another reason for a longer term contract was that I was aware that other companies, sensing our success in the foreign marketplace, knew of Mr. De Francis' relationships with Northrop and were making offers to him considerably more financially attractive than ours. It was for this reason I felt that, although unusual in the normal sense, it would be to the interests of Northrop to give Mr. De Francis a long-term contract.

LAW OFFICES

Boykin & De Francis

SUITE 812

WATERGATE OFFICE BUILDING

2800 VIRGINIA AVENUE, N.W.

WASHINGTON, D.C. 20037

LYKES M. BOYKIN
FRANK J. DE FRANCISCABLE ADDRESS
"BODELAW"
—
338-6100

August 18, 1971

Mr. Thomas V. Jones
Chairman of the Board
and President
Northrop Corporation
1800 Century Park East
Los Angeles, California 90067

Dear Tom:

In accordance with our understanding and your instructions thereunder, I am to handle all of the legal details pursuant to the organization of the sales corporation in Switzerland which will support your sales effort of the F-5E (F-521) throughout the world.

As you requested, I was able to secure the name "Economic and Development Corporation" for the Swiss company which has its corporate seat in Zug, Switzerland. It was capitalized on paid-in capital of 50,000 Swiss francs with bearer shares with a par value of 100 Swiss francs each. As you directed, the management and directors are totally foreign nationals and will continue to be composed solely of non-Americans. The Chairman of the Board, Dr. Andreas Froriep, is an outstanding Swiss national and has a widespread international reputation. An independent reference in this country, over and above my own, as to Dr. Froriep's reputation and general character may be obtained from the American Institute for Economic Resources, Great Barrington, Massachusetts.

Through Dr. Froriep's international connections he will promulgate the organization by bringing in to the

Mr. Thomas V. Jones
August 18, 1971
Page Two

corporation's staff such personnel from the various foreign countries as will help develop the sales potential of Northrop's International Fighter throughout many areas of interest in the world. He and other members of the Board well recognize that the stock of the corporation is not to be owned either directly or indirectly by any American interests and is to be used in the most efficient and expeditious manner for the development of the corporation's stated objectives -- dealing with the sales and marketing of the F-5E in foreign countries. In this connection, he will, on the corporation's behalf, engage in each country where interest in the F-5E may be generated, nationals of that country who may be able to make a substantial contribution toward concluding a sale for the F-5E within that specific country. For example, in the Federal Republic of Germany, he will call upon the services of Dr. Franz Bach, whose knowledge and expertise is of a unique nature. Not only has Dr. Bach been a former Ambassador to Iran and is currently a member of the German Bundestag, but he also acts as Commercial and Financial Adviser to Siemens Company, which as you know, is not only dominant in its field within Germany, but has a world-wide operation.

7 The date of incorporation of Economic and Development Corporation was March 22, 1971. During the past year and a half I have spent considerable time, in accordance with your instructions, not only in supervising the legal details of incorporation, but insuring that the initial personnel of the corporation are of the caliber and standard you would require. In this regard, the Board of Directors have agreed that the stock of the corporation is to be used as an incentive bonus for foreign personnel that it retains to act on its behalf in addition to basic retainer salaries. I am personally convinced that this concept, which in my experience represents a new innovation in foreign sales marketing, has a wide and tremendous potential. I believe

Mr. Thomas V. Jones
August 18, 1971
Page Three

that it will prove to be an important ingredient in increasing the sales market for your International Fighter.

I have reviewed your proposed contract with the Board of Directors and they are prepared to enter into the Agreement as you have presented it.

I am enclosing for your added information the Articles of Incorporation and the corporate statutes of "Economic and Development Corporation". I trust that the corporate organization and the personnel that have been retained at the managerial level meet with your approval and I wish the company every success in its endeavors.

Kindest personal regards.

Sincerely yours,



Frank J. De Francis

FJD/bch

Enclosures

LAW OFFICES

Frank J. DeFrancis

SUITE 812

WATERGATE OFFICE BUILDING
2800 VIRGINIA AVENUE, N.W.
WASHINGTON, D.C. 20037CABLE ADDRESS
"DELAWE"

(202) 338-8100

August 9, 1974

Mr. Thomas V. Jones
President
The Northrop Corporation
Northrop Building
1800 Century Park East
Beverly Hills, California 90067

Dear Tom,

I certainly enjoyed hearing from you this week. In accordance with your telephone request, I will set out certain of my thoughts in regard to the Economic and Development Corporation. Your original concept and unique marketing innovations of utilizing local nationals within country or persons having a particular identity to the subject nation has always been enthusiastically supported by me. In my opinion, the wisdom of such a basic rationale is clearly reflected if one merely studies the disappointing results emanating from the abortive endeavors in connection with the excellent opportunity for overall marketing and consultant agreements that existed in the program with Indonesia. Certainly, the experiences of U.S. firms attempting to market in countries in which they are not familiar has a long record of failures. You are in a most singularly superior position to evaluate marketing efforts utilizing this technique as contrasted with personnel that are well acquainted and familiar with a country's customs, political structures, etc.

In endeavoring to implement your basic principles in establishing the factual and legal framework for such a sales entity, I went to extreme measures to insure that its corporate head would be a man of impeccable reputation and international accumen. I well realized that around him would

EXHIBIT IV-C-1

Mr. T. V. Jones

August 9, 1974

Page Two

revolve the focal point and prime thrust for the organizations ultimate growth and development. Since it is an entity that is not under the control, either directly or indirectly, of Northrop or any of its subsidiaries and is to act in a totally independant capacity, the need for an appropriate head whose integrity and abilities are beyond question is fundamental to its success.

In acting with your mandate to initially organize such a corporation, I did not want to place myself in a position of recommending any one to you who could in any way have been challenged on the grounds of either special interest or patronization on my part. Despite the fact that, for the most part, my professional life has been spent in international matters, I firmly decided that the person who should head the organization you envisioned should be totally outside my sphere of work and activity. I felt it was in the interests of all concerned that I have no previous personal or professional relationship with him. In so doing, I passed over the names of many outstanding international figures. For example, prior to his appointment to the German Supreme Constitutional Court, my correspondent attorney in Germany for almost twenty years had been the world-renowned Dr. Fabian von Schlabrendorff. I am sure that you will recall that he is the principal subject of General Donovan's book, "The Man Who Almost Killed Hitler". I felt that due to our personal relationship and, more importantly, in the attorney-client posture that I enjoy with the Northrop Corporation, I wanted to insure that the selection of the person to head up and carry through with such a sales organization be a man independent from any charge of favoritism that might emanate from any quarter in the then past, present or future.

After months of research and utilizing the innumerable international connections that I have developed in both my professional and personal career, I selected, as you know, Dr. Andreas Froriep of Zurich, Switzerland. I came to realize that the strength of Dr. Froriep's reputation and connections in literally every part of the non-Communist world was uniquely significant and afforded an unusual opportunity to develop and implement the plan of securing personnel within or knowledgeable of subject countries to promote, develop, and expand

Mr. T. V. Jones
August 9, 1974
Page Three

the efforts of Northrop in the sale of its International fighter. As I previously related to you, the recommendations concerning Dr. Froriep were not only of foreign origin but, for example, in the U.S. I received the highest recommendation from the well-regarded investment advisory service, the American Institute for Economic Resources.

I am not personally conversant with the corporation's other incorporators such as I. Isler or R. Kleiner. However, in reviewing most thoroughly with Dr. Froriep the basic principles of organization and implementation of your marketing concepts, I emphasized that the personnel he would subsequently engage should be in keeping with the high standards that characterize his personal and professional career. As I previously reported to you, an illustration of the type individual we discussed was Dr. Franz Bach who at one time was Chancellor Adenauer's key political and foreign advisor, held Ambassador or counselor posts in Iran, Saudi Arabia, and Hong Kong, was a former member of the Bundestag and is the Middle East consultant and advisor to one of the world's largest electrical companies, Siemens A.G. Dr. Froriep well recognized that the utilization of the shares of a corporation as an employment incentive backed up by the sales agreement between Economic & Development and the Northrop Corporation permitted an outstanding and unique opportunity of bringing into realization and implementation a new medium in sales organization and development.

Since this corporate entity was to be totally free to act in an independent capacity I have not endeavored to become conversant with the details of its operation. In fact, in the past nineteen months, I have had the occasion to personally see Dr. Froriep only twice, the second only being last week on his visit to the United States. At that time, he related to me in a most forceful manner that he felt the sales results of the International fighter throughout the variant countries were most gratifying but parenthetically expressed keen disappointment in regard to the fact that, to-date, the cash flow under the terms of the contract with Northrop have not been effectively implemented. As to my direct questions regarding the specific involvement of his company in sales efforts in

Mr. T. V. Jones
August 9, 1974
Page Four

the different countries, he reminded me that one of the underlying factors and conditions that was a prerequisite in his organization of the Economic & Development Corporation was that it remain a separate and independant organization. As a consequence, the methods and utilization of personnel on behalf of the corporation are so structured that it is able to advance the cause of Northrop in the sale of the International fighter not only on the basis of confidentiality but also uniquely independant of any direct Northrop connection. He stressed to me that, as you originally envisioned, this principle gives him a wide degree of flexibility in procuring the best people for the particular assignment at hand and, in many instances, enables him to secure persons who otherwise could not be directly involved for variant reasons with Northrop as such. He strongly feels that such a fundamnet has become an essential ingredient in the overall success of the operation. He further stated that Northrop has been able to engage the benefit of an independant sales entity without the necessity of an annual stated cash flow for expenses, retainers, travel, etc. and thus its payment is limited only to actual sales success. In short, expenses are in proportion to the actual financial success realized by Northrop in sales.

Tom, there can be little question in my mind that the sale of the International fighter and its acceptability throughout the world has exceeded even the most optimistic forecasts by the proponents of this plane. Certainly, this stands as a marked testimonial to the efforts, energies, talent and time that has been employed in the development, promulgation, and sale of your International fighter.

Kindest personal regards.

Sincerely,


Frank J. DeFrancis

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067



In reply refer to:

To: Welko E. Gasich

From: George Gore

Subject: The Economic and Development Corporation

Date: January 21, 1972

Copies:

Ref:

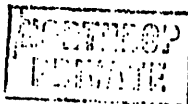
Under date of September 2, 1971, our Company entered into an agreement with The Economic and Development Corporation (EDC), a Swiss corporation. A copy of this contract is enclosed, with the admonition that it is highly confidential, should be retained in your files only, and should not be reproduced.

By this agreement, EDC is appointed our representative for the sale by us of the F-5-21 airplane to any government throughout the world except the United States Government. The appointment is not exclusive, i.e., we may appoint (and in fact have appointed) other sales representatives for the sale of the F-5-21 airplane.

If an F-5-21 airplane, or any component or spare part thereof, is sold to any foreign government during the term of the agreement, a fee is payable to EDC in accordance with the schedule attached as Exhibit A of the agreement. In Exhibit A, sales are divided into "Direct Sales" and "Indirect Sales." The former are sales directly by Northrop to the foreign government. The latter are sales by Northrop to the United States Government for redelivery to a foreign government. As to Direct Sales, Exhibit A contains a fixed schedule of fees. As to Indirect Sales, the provision is that a fee "may be payable." The language of Exhibit A, with respect to Indirect Sales, is that compensation "may be paid by Northrop, if in its discretion, the exercise of which shall be conclusive, it seems such payment is warranted and is provided by the U.S. Defense Department (ASPR) regulations." If a fee is payable on Indirect Sales, the amount is determined by the schedule for fees for Direct Sales. Obviously, if the laws or regulations of the United States prohibit a fee on such Indirect Sales, we cannot pay a fee.

Similar compensation is payable to EDC with respect to the licensing by Northrop of F-5-21 parts and components to be finally assembled in the completed aircraft.

If Northrop accepts any orders for the sale and delivery of the F-5-21 airplane to any government in the world other than the United States Government, such orders shall be deemed to have been accepted by EDC and EDC shall be paid a fee in accordance with Exhibit A, whether or not EDC had anything to do with the order.



NOT REPRODUCED

Memorandum

Northrop Corporation, Corporate Office
 200 Century Park East, Los Angeles, CA 90067



In reply refer to:

To: Welko E. Gasich

From: George Gore

Subject: The Economic and Development Corporation

Date: January 21, 1972

Copies:

Ref:

-2-

Compensation is payable to EDC only as Northrop receives payments in U. S. dollars. In computing fees payable to EDC, only dollar amounts actually received by Northrop are taken into account, i. e., payments made by the foreign government directly to engine manufacturers and other vendors and suppliers are not included in the base.

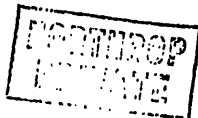
The term of the Agreement commences September 2, 1971 and continues until terminated by agreement between the two parties to the Agreement.

We have paid the \$200,000 referred to in Article FIFTH (d) at the top of page 4 of the Agreement.

Aside from making you aware of this Agreement, the principal purpose of this memorandum is to make certain that your costs and prices for the F-5-21 take into account the possibility of fees for EDC.

George Gore, Vice President,
 General Counsel and Secretary

GG:rk
 Encl.



NORTHROP

AGREEMENT

THIS AGREEMENT, made this 2nd day of September, 1971, by and between the Northrop Corporation, 1800 Century Park East, Century City, Los Angeles, California, a corporation organized under the laws of the State of California and hereinafter called Northrop, and The Economic and Development Corporation, a corporation organized under the laws of Switzerland, within the Canton of Zug, hereinafter called Representative.

WHEREAS, the Northrop Corporation anticipates a global demand for the F-5-21 airplane and as such recognizes that expert knowledge, relationships and particular capabilities are needed to enhance the possibility of sales to foreign countries, and

WHEREAS, Northrop does not presently possess within its organization such capabilities or does it feel that this activity can best be performed within its said organization, and

WHEREAS, the Northrop Corporation desires that the international company, The Economic and Development Corporation, which was formed and organized to effectuate this objective, act as its Representative, and

WHEREAS, the Representative wishes to act in the capacity as contemplated within the terms of this contract as set forth hereunder,

NOW, THEREFORE, it is hereby mutually agreed as follows:

W I T N E S S E T H

FIRST: Representative is hereby appointed Representative of Northrop for the sale by Northrop of the F-5-21 airplane to any government throughout the world with the exception of the government of the United States.]

SECOND: Representative shall devote efforts to the cultivation of markets and sales prospects for, and the sale to any of the Governments in the aforesaid areas of the F-5-21 airplane, manufactured or sold, or both, by Northrop in accordance with sales programs from time to time given to Representative by Northrop. Representative shall not, during the term of this Agreement, without the prior written consent of Northrop, sell or offer to sell or to distribute, either directly or indirectly, any other aircraft or parts therefore manufactured by or for Northrop.

EXHIBIT IV-C-3

THIRD: Representative shall assume and discharge for his own account all costs, expenses and charges necessary or incidental to the said representation, including without limitation, license and other fees and expenses of communicating with Northrop (when Representative initiates the communication) and shall indemnify Northrop against, and save it free and harmless of and from, all such costs, expenses and charges and all claims, promises, guarantees, debts, obligations and liabilities of every nature and kind (hereinafter called "expenses") made, incurred, contracted or created by Representative which have not been specifically assumed in advance in writing by Northrop. At the time of submitting a claim for reimbursement of any expenses which have been specifically assumed in advance in writing by Northrop, Representative shall include a copy of the authorization and shall itemize such expenses in detail. Any claim which is not so documented shall be disallowed. Representative should not transfer funds to or pay the expenses of any Northrop employee. Northrop will not reimburse Representative for any funds transferred to a Northrop employee or any expenses paid on behalf of a Northrop employee by Representative unless specifically approved in advance in writing by Northrop.

FOURTH: Representative shall, and it is intended that Representative will, act as an independent contractor hereunder. It is agreed that Representative is not, and that it is not intended that Representative shall be deemed to be, an employee of Northrop, or an agent of Northrop. No order, contract or other agreement shall be accepted by Representative on behalf or in the name of Northrop, or executed or approved by Representative in the name or on behalf of Northrop, without specific written authority given in advance by Northrop. In any event all such sales and all of the terms and provisions of all orders, contracts and agreements executed or accepted by Representative in the name and upon behalf of Northrop, pursuant to such specific authority, shall be subject to approval, acceptance and ratification by an Officer of Northrop. Except to the limited extent contemplated by this Subdivision FOURTH, Representative shall in no respect act or represent himself as the agent of Northrop, and no agreement of agency shall be deemed to arise herefrom. No associate, partner, employee, agent, representative or subagent of Representative shall have any power or authority independently to accept on behalf of Northrop any order, agreement or contract, or to make, incur, or create any claim, promise, guarantee, debt, obligation, expense or liability of any kind whatsoever in the name of, or on behalf of, or for the account of, Northrop, and all such associates, partners, employees, agents, representatives and subagents shall be solely those of Representative and not of Northrop, and no act of any thereof shall bind or obligate Northrop except to the extent that such act would bind or obligate Representative and the act is one Representative has been specifically authorized in advance by Northrop to perform in the name of or on behalf of Northrop. No subagent shall be appointed by Representative in connection with this Agreement without the prior written consent of Northrop.

IFTH: For acting as Northrop's sales representative and for performing services in such capacity, Representative shall receive in connection with the sale by Northrop of the F-5-21 airplane to any Government in the aforesaid areas compensation in accordance with the following provisions and schedules:

(a) Military Sales. With respect to any direct sale by Northrop to any Government in the aforesaid area sums shall be payable to Representative, and with respect to any indirect sale by Northrop sums may be payable to Representative at Northrop's option, on the F-5-21 airplane, or any components or spare parts in connection therewith intended at the time of delivery for use by the military, sold to any Government in the aforesaid areas (excluding products of the mind, including but not limited to drawings, data, plans, specifications, patents, license agreements, etc.) during the term of this Agreement, in accordance with the applicable provisions of the schedule attached hereto marked Exhibit A, and by this reference made a part hereof.

(b) License Agreements. With respect to any direct sale by Northrop during the term of this Agreement sums shall be payable to Representative, and with respect to any indirect sale by Northrop during the term of this Agreement sums may be payable to Representative at Northrop's option, on items (airplane spare parts, airplane parts or assemblies to be final assembled into completed aircraft, tools, jigs, dies and other physical manufacturing aids) intended at the time of delivery for use in the manufacture and/or assembly of Northrop F-5-21 airplane intended for the use of any Government in the aforesaid areas, in accordance with the applicable provisions of the said schedule attached hereto and marked as Exhibit A, and by this reference made a part hereof.

(c) All payments to be made to Representative as hereinabove provided, shall be payable only as Northrop receives payments in U.S. dollars for the performance of F-5-21 Sales Contracts and as Northrop receives payments in U.S. dollars of Signing fees and Royalties. If such payments are received incrementally, payments will be made to Representative incrementally, based upon such amounts as Northrop receives, except that advance payments, against future compensation, may from time to time, at the election of Northrop, be made to Representative by Northrop, provided, however, that (i) Northrop shall withhold from each amount as it becomes payable hereunder so much thereof as Northrop may elect until all advance payments have been offset in full, and (ii) in the event an indirect military sale is made under a military prime contract subject to price redetermination, and in the event compensation on such indirect sale, as described in Exhibit A, is determined by Northrop to be payable, Northrop will pay, following delivery of the product covered by such sale, seventy-five per cent (75%) of the compensation due with respect to payments received by Northrop from the United States Government prior to and upon such delivery. At the time of final contract price redetermination, Northrop shall adjust the compensation due based on the finally redetermined price. Payment shall be made to Representative at the address above set forth, or at such other

(d) In accordance with the aforesaid Article FIFTH Subdivision (c), Northrop will herewith make an advance payment of TWO HUNDRED THOUSAND DOLLARS (\$200,000) against future compensation to be earned by Representative in accordance with the said agreement so that the initial endeavors and work programming that is necessary in launching a major scale sales effort can be accomplished by Representative. It is understood and agreed that the provision of this agreement regarding offset against such advances will apply and be in force as set forth in this contract.

SIXTH: If any Officer or employee of Northrop accepts any orders for the sale and delivery of the F-5-21 airplane to any Government in the aforesaid areas with authorization from Northrop, such orders shall be deemed to have been accepted by Representative and Representative shall be paid sums with respect thereto as provided in Subdivision FIFTH hereof. Representative shall assist and cooperate with such Officers and employees in every reasonable manner.

SEVENTH: It is understood and agreed that, in connection with offers for the sale of the F-5-21 airplane, Representative shall, prior to the making of any such offer, obtain from Northrop instructions concerning the terms of such offer. Northrop shall use its best efforts to keep Representative currently advised with respect to its policies from time to time in force affecting the sale of the said product

EIGHTH: Northrop reserves the right to accept or reject any and all orders submitted by Representative.

NINTH: Representative shall not make any statement which indicates or might imply that performances of Northrop products are greater than those indicated in Northrop's guarantees of performance as set forth in its purchase agreements.

TENTH: Neither this Agreement, in whole or in part, nor monies due or which may become due to Representative hereunder, shall be assigned or transferred by Representative except with the prior written consent of Northrop.

ELEVENTH: This Agreement shall be interpreted and construed in accordance with the laws of the State of California in the United States of America. This written instrument constitutes the entire agreement between the parties and shall not be varied, amended or supplemented except by an instrument in writing executed by both parties concurrently with or subsequent to the execution of this Agreement.

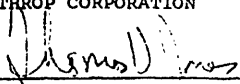
TWELFTH: All sums of money mentioned or referred to in this Agreement are understood to refer to lawful money of the United States of America and all payments thereof pursuant to this Agreement shall be made in said lawful money.

THIRTEENTH: The term of this Agreement shall commence as of the date of this Agreement and shall continue unless terminated.

IN WITNESS WHEREOF, the respective parties have set their hands and seals this 2nd day of September, 1971.

NORTHROP CORPORATION

By

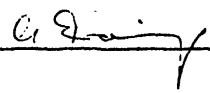


Thomas V. Jones
President and Chairman

REPRESENTATIVE:

ECONOMIC AND DEVELOPMENT CORPORATION

By



1-14-72

George - (5-)

I trust this is in order. I can't recognize the signature but I guess it's one of those European lawyers who is president.

TVJ

TVJ:db

EXHIBIT A**I. DIRECT SALES**

- (1). Compensation for direct sales of the F-5-21 aircraft with all components and spare parts will apply and be made on each and every sale concluded with any foreign Governments in the aforesaid areas described in the Agreement and the rate of such compensation for each sale will be predicated and based on the following schedule:
 - (a). One and one-half per cent (1-1/2%) of the first ten million dollars of sales to a government.
 - (b). One per cent (1%) of the next thirty million dollars of sales to the same government.
 - (c). Three-quarters per cent (3/4%) of the next thirty million dollars of sales to the same government.
 - (d). One-half per cent (1/2%) on all remaining dollar sales to the same government.

II. INDIRECT SALES

- (1). Compensation for indirect sales of the F-5-21 aircraft with all components and spare parts may be paid by Northrop, if in its discretion, the exercise of which shall be conclusive, it seems such payment is warranted and is provided by the U.S. Defense Department (ASPR) regulations, upon sales by Northrop to the United States Government and the redelivery by the latter to a Government in the Sales territory described in the Agreement and the rate of such compensation will be determined and in accordance with the payment schedule listed above.

III. "Sales to a government" or "sales to the same government"
as used above includes only the dollar amounts actually received by Northrop Corporation.

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067



In reply refer to:

248

To: Welko E. Gasich

From: George Gore

Subject: The Economic and Development Corporation

Date: January 21, 1971

Copies:

Ref:

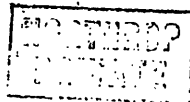
Under date of September 2, 1971, our Company entered into an agreement with The Economic and Development Corporation (EDC), a Swiss corporation. A copy of this contract is enclosed, with the admonition that it is highly confidential, should be retained in your files only, and should not be reproduced.

By this agreement, EDC is appointed our representative for the sale by us of the F-5-21 airplane to any government throughout the world except the United States Government. The appointment is not exclusive, i.e., we may appoint (and in fact have appointed) other sales representatives for the sale of the F-5-21 airplane.

If an F-5-21 airplane, or any component or spare part thereof, is sold to any foreign government during the term of the agreement, a fee is payable to EDC in accordance with the schedule attached as Exhibit A of the agreement. In Exhibit A, sales are divided into "Direct Sales" and "Indirect Sales." The former are sales directly by Northrop to the foreign government. The latter are sales by Northrop to the United States Government for redelivery to a foreign government. As to Direct Sales, Exhibit A contains a fixed schedule of fees. As to Indirect Sales, the provision is that a fee "may be payable." The language of Exhibit A, with respect to Indirect Sales, is that compensation "may be paid by Northrop, if in its discretion, the exercise of which shall be conclusive, it seems such payment is warranted and is provided by the U.S. Defense Department (ASPR) regulations." If a fee is payable on Indirect Sales, the amount is determined by the schedule for fees for Direct Sales. Obviously, if the laws or regulations of the United States prohibit a fee on such Indirect Sales, we cannot pay a fee.

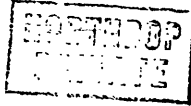
Similar compensation is payable to EDC with respect to the licensing by Northrop of F-5-21 parts and components to be finally assembled in the completed aircraft.

If Northrop accepts any orders for the sale and delivery of the F-5-21 airplane to any government in the world other than the United States Government, such orders shall be deemed to have been accepted by EDC and EDC shall be paid a fee in accordance with Exhibit A, whether or not EDC had anything to do with the order.



Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067



In reply refer to:

To: Welko E. Gasich

From George Gore

Subject: The Economic and Development Corporation

Date: January 21, 1972

Copies:

Ref:

-2-

Compensation is payable to EDC only as Northrop receives payments in U.S. dollars. In computing fees payable to EDC, only dollar amounts actually received by Northrop are taken into account, i.e., payments made by the foreign government directly to engine manufacturers and other vendors and suppliers are not included in the base.

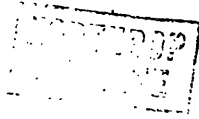
The term of the Agreement commences September 2, 1971 and continues until terminated by agreement between the two parties to the Agreement.

We have paid the \$200,000 referred to in Article FIFTH (d) at the top of page 4 of the Agreement.

Aside from making you aware of this Agreement, the principal purpose of this memorandum is to make certain that your costs and prices for the F-5-21 take into account the possibility of fees for EDC.

George Gore, Vice President,
General Counsel and Secretary

GG:rk
Encl.



NORTHROP

MemorandumNORTHROP PRIVATE

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067



Only refer to:

To: **W. E. Gasich**From: **F. W. Lloyd**Subject: **The Economic and Development Corporation**Date: **10 February 1972**Copies: **M. G. Gonzalez, G. Gore, T. V. Jones, File**

Ref:

This memo is issued to clarify the Aircraft Divisions requirement for commission obligation to subject Company on F-5E aircraft sales.

No commission is required for those aircraft sold to the U. S. Government where the funds are U. S. appropriated. This includes aircraft procured for U. S. Forces' use, aircraft procured by the use of MASF funding, or aircraft procured under MAP funding, regardless of quantity of aircraft procured.

The Aircraft Division is obligated to subject Company for commissions (in accordance with (a) through (d) below) applied to the dollar amounts actually received by Northrop. These commissions apply to all aircraft and attendant hardware sold to foreign governments, whether by direct sale (Northrop to foreign government), through FMS procurement, or any other form of procurement where foreign government funds are used. Further, this obligation is applicable to all aircraft and attendant hardware presently on order, in process of order, and all future orders, regardless of quantity sold.

- a. One and one-half per cent (1-1/2%) of the first ten million dollars of sales to a government.
- b. One per cent (1%) of the next thirty million dollars of sales to the same government.
- c. Three-quarters per cent (3/4%) of the next thirty million dollars of sales to the same government.
- d. One-half per cent (1/2%) on all remaining dollar sales to the same government.

Before paying fees in any case, you will obtain the approval of the President of Northrop Corporation.

NORTHROP PRIVATE

NORTHROP PRIVATE

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W. E. Gasich
10 February 1972
Page Two

The consulting agreement between Northrop Corporation and the Economic and Development Corporation shall not be used to substantiate any negotiations.

The contents of this agreement shall be held NORTHROP PRIVATE to the recipients of this memo.



F. W. Lloyd
Senior Vice President
Operations

March 16, 1973

Economic and Development Corporation
Zellerstrasse 57
8038 Zurich, Switzerland

Attention: Dr. Andreas Froriep

Gentlemen:

Reference is made to our agreement with you dated September 2, 1971, under which we engaged you to perform services as our sales representative in connection with the F-5-21 aircraft.

This program has been proceeding very satisfactorily and we appreciate all the work you have performed. Orders have been received to supply the aircraft to Iran, Saudi Arabia, and Malaysia, a program for the production of the aircraft jointly with the Republic of China has been commenced, and additional orders for other countries are anticipated. The activities in Brazil and Turkey look especially promising. As programs come to fruition, we will keep you advised.

We expect that deliveries of the aircraft to foreign users will commence in the fall of this year. As these deliveries are made, you will receive payments in accordance with the terms of the agreement and as Northrop Corporation receives payments in United States dollars for its performance of the F-5-21 sales contracts.

Very truly yours,

NORTHROP CORPORATION

Thomas V. Jones
President

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

In reply refer to:

To: F. W. Lloyd

From: George Gore

Subject: Forecast of Commissions to
Economic & Development Corporation

Date: May 31, 1974

Copies:

Ref:

The Aircraft Division has given me the following estimate of the mandatory and optional commissions that will become due to Economic & Development Corporation for sales of F-5E aircraft in the calendar year 1974:

Direct Sales

ROC	\$ 415,700	
Brazil	<u>258,250</u>	\$ 673,950

Indirect Sales

Saudi	\$ 134,400	
Malaysia	72,000	
Iran	<u>349,000</u>	\$ 555,400

Total 1974 Estimate		<u>\$ 1,229,350</u>
---------------------	--	---------------------

George Gore, Vice President
and General Counsel

GG:rk

NORTHROP

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

In reply refer to

To: George Gore

From: F. W. Lloyd

Subject: Forecast of Commissions to
Economic & Development Corporation

Date: June 3, 1974

Copies:

Re: Your Memo, San
Subj., May 31

As you are aware, the justification for this contract is only understood by Mr. T. V. Jones and in part some of the payments are discretionary.

The last instructions issued by Mr. Jones were that the Aircraft Division should accrue these payments but should not pay until directed to do so by him.

At any time you feel it is appropriate to discuss this further with Mr. Jones, I will be happy to participate in this discussion.

F. W. Lloyd
F. W. Lloyd
Senior Vice President-Operations

FWL:rk

14C

CONFIDENTIAL

Memorandum

Northrop Corporation - Aircraft Division
3901 West Broadway - Hawthorne, California 90230

NORTHROP PRIVATE

In reply refer to

255

To: F. W. Lloyd

From: P. H. Champion

Subject: ECONOMIC AND DEVELOPMENT CORPORATION

Date: 26 June 1974

Copies: M. G. Gonzalez
G. Gore



Attached hereto is an estimated recap of monies which will be due Economic and Development Corporation as a result of existing Brazilian and Chinese direct sale contracts. In addition to the amount shown for the firm contracts, an additional \$600,000 could possibly accrue as a result of an additional eighty-five F-5E's being sold to the Chinese.

It is to be noted that in estimating present value for both the amount which has been owing, as well as for the amount that will be owing, they almost cancel each other out, so that the total amount owed of \$1,578,470 results in a present value of \$1,531,893. This is not necessarily, however, the way we would propose it to Economic and Development Corporation.

P. H. Champion

P. H. Champion

Attach.: (1)

NORTHROP PRIVATE

NORTHROP

NORTHROP PRIVATE

Attachment 1

Economic and Development Corporation

As of 1 July 1974

<u>Amount Owed</u>	<u>Months</u>	<u>Present Value</u>	
\$ 4,650	(18)	\$ 6,449	(PV rate is 22%)
35,250	(15)	46,292	
111,900	(12)	139,158	
97,200	(9)	114,466	
93,795	(8)	108,467	
153,395	(6)	171,061	
108,570	(3)	114,651	
<u>144,785</u>	<u>(0)</u>	<u>144,785</u>	
\$ 749,545		P.V. at 1 July 1974 - \$ 845,329	

\$ 144,580	3	\$136,911
196,825	6	176,498
142,785	9	121,247
100,748	12	81,013
89,947	15	68,492
37,800	18	27,257
28,890	19	20,457
31,900	21	21,782
14,100	24	9,117
12,950	27	7,929
12,800	30	7,422
12,600	33	6,918
1,600	36	832
<u>1,400</u>	<u>39</u>	<u>689</u>
\$ 828,925		\$ 686,564
\$1,578,470	Total Owed	P.V. at 1 July 1974 - \$1,531,893

① more recent info computed by the division and total by E&E should total on contract to be \$1,178,000

② Revised computation for Division, reflects \$621,000 payola from 6-30-74

NORTHROP PRIVATE

< Per discussion with B. Shuman at division, division difference and time adjustment for correct in determination of commission base

6-71-74

257

EDC - Iran only, thru 12-31-73 \$ 362,035 ✓
 " 3-31-74 483,000 ✓

EDC - World wide thru 12-31-73 \$ 774,000 ✓

EDC - 1973 world wide 1974 only, 1,329,400
 " 2,003,350
 of which 673,950 is multi.

200,000 Credit

774
 1,329
 2,003

\$ 774,000 - 1973
 556,400 - 1974 } Discrepancy
 1,329,400
 673,950 - Manufacturing
 2,003,350

349
 362
 711

(258) *only official
problem of
Soviet*

1) A/C contracted for (for draw) after Nov 1973
no Comm. what would plus do to the Comm. idea

59-120 0474

LAW OFFICES
Frank J. DeFrancis
 SUITE 812
 WATERGATE OFFICE BUILDING
 2800 VIRGINIA AVENUE, N. W.
 WASHINGTON, D. C. 20037

CABLE ADDRESS
 "DELAW"

(202) 338-6100

September 11, 1974

Mr. E. Raymond Crim
 Ernst & Ernst
 515 South Flower Street
 Los Angeles, California 90071

Dear Mr. Crim:

In accordance with our meeting, I am enclosing herewith the confirmation of the papers that you left with me.

As we discussed, the payment of \$200,000 to the Economic and Development Corporation was made directly to that company and should not be included in any list of payments that Northrop has made to me. As you can note from the enclosure, my records are in agreement with your schedule of amounts paid to me with the exception that the \$25,000 payment commencing with the four-year contract for my legal services of May 13, 1969, should be credited to the year 1970 rather than 1969. Moreover, as I indicated to you in our meeting, the January 1969 payment of \$10,000 and the February 1969 payment of \$12,500 related respectively to the extraordinary legal work involved in the endeavors to secure commodity financing for a portion of the construction of the Tehran airport complex through the Commodity Credit Corporation under the terms of Public Law 480, and the efforts in Indonesia in regard to its industrial and economic programs for commercial development. In accordance with your further request, I am enclosing herewith a copy of my out-of-pocket expense report that I have just sent to Northrop up to and including the date of July 31, 1974.

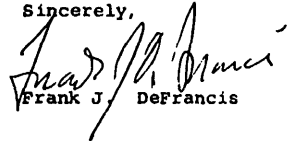
Mr. E. Raymon Crim
September 11, 1974
Page Two

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I trust that this completes the information that you require. As I personally expressed to you, even under these somewhat trying circumstances, it was a distinct pleasure having the opportunity to meet you, as well as your colleagues, Messrs. De Vos and Falkenhagen.

Best regards to you.

Sincerely,



Frank J. DeFrancis

FJD/lo
Enclosures

Ernst & Ernst
 Arco Tower
 515 South Flower Street
 Los Angeles, California 90071

Gentlemen:

1. The attached information regarding payments made to me since 1967 by Northrop Corporation and subsidiaries is correct except as follows: The four-year contract of 5/13/69 payment of \$25,000 is attributable to the year 1970, not 1969. *as dated 12/26/69*
2. Amounts ~~paid~~ or advanced to me which ~~were~~ returned to the Corporation, its subsidiaries, directors, employees or other representatives, amounted to \$ none (please give amounts by calendar year):
3. Amounts paid by me as political contributions or other payments which were unusual and not in the ordinary course of business and at the direction of Northrop Corporation, its subsidiaries, directors, employees or other representatives amounted to \$ none (please give amounts by calendar year):
4. The following amounts are owed me (and these companies directly or indirectly owned by me) by Northrop Corporation or its subsidiaries as of the date of this letter. Subject to the contract of 3/16/73.

Signed: _____

Date: _____

September 11, 1974

NORTHROP CORP.

PAYMENT HISTORY - DEFRANCIS & EDC

262

AGREEMENT & TERMS	PAYMENTS MADE		DESCRIPTION
	DATE	AMOUNT	
Original Agreement of 8/29/67	1967	\$ 25,000	Consulting Services
\$50,000 annually, plus expenses	1967	7,171	Expenses
covers two year term and is payable in semi-annual payments each Sept. and March			
Original Agreement	1968	50,000	Consulting Services
	1968	12,236	Expenses
Legal Services	Jan. '69	10,000	
" "	Feb. '69	12,500	
Original Agreement	1969	25,000	Consulting Services
	1969	3,512	Expenses
Four year contract of 5/13/69	1969	25,000	Consulting Services
\$50,000 annually, plus expenses payable in Jan. & March			
Four year contract	1970	25,000	Consulting Services
" "	1970	7,344	Expenses
Four year contract	1971	50,000	Consulting Services
" "	1971	4,913	Expenses
Legal Services	July 1971	50,000	Re EDC Work
EDC Agreement of 9/1/71	Sept 1971	200,000	Advance
Four year contract	1972	50,000	Consulting Services
" "	1972	14,535	Expenses
Four year contract	1973	50,000	Consulting Services
" "	1973	6,659	Expenses
Legal (or miscellaneous) services	Sept 1973	10,000	"Project in Italy"
Fifteen year contract of 3/16/73, \$100,000 annually, payable semi-annually each Sept. & Mar.	1973	50,000	Consulting Services
Fifteen year contract	1974	50,000	Consulting Services
		<u>\$738,870</u>	
SUMMARY:			
Consulting Services		\$400,000	
Expense Reimbursement		56,370	
EDC		200,000	
Legal Services		82,500	
		<u>\$738,870</u>	

+9/74 250M

Check
9-19-74
APPROVED

Northrop Special Investigation
Computation of E. AC Sales Commission Payable as of 12-31-73

263

NORTHROP PRIVATE

INDIRECT SALES

Optional Commissions - E.D.C.

As of 12-31-73

Contract -0717, F-5E

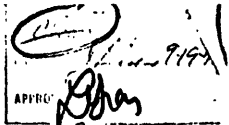
Collections:

	No. of Planes	%	Pro Rata TTD Costs	80% Progress Payments	27.2% of Sales	Commission Base	Optional Liability
Saudi (3C)	30 of 30	100%	\$38,395,000	\$30,717,000 ⁷	\$4,718,000	\$35,435,000	\$404,000 ¹¹
Malaysia (4C)	14 of 214	6.5%	698,000	558,000 ⁷	-0-	558,000	8,000 ¹¹
Iran (3E)	58 of 136	42.6%	32,776,000	26,221,000 ⁷	1,624,000		
(4A)	83 of 214	38.8%	4,165,000	3,332,000 ¹¹	-0-	31,177,000	362,000 ¹¹
Total Optional Commissions							\$774,000 ¹¹

9600/64
3-4-74

NORTHROP PRIVATE

Northrop Special Investigation
about Competition of EDC Sales Commission as of 6-28-74



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Memorandum

Northrop Corporation - Aircraft Division
 3931 West Broadway • Hawthorne, California 90250

In reply refer to 9600-74-168

To Ernst & Ernst From W. G. Niemann
 Subject SALES COMMISSIONS - EDC Date 17 September 1974
 Copies File Ref

Following are the sales commission liabilities on Economic & Development Corp.
 as of 6-28-74, as requested:

Optional Commissions

	Commission Base	Sales Commission (000)
Saudi	\$ 44,040	\$ 480
Malaysia	\$ 2,189	33
Iran	\$ 69,045	<u>668</u>
Total		<u>\$ 1,181</u>

Mandatory Commissions

China	\$ 40,339	\$ 452
Brazil	\$ 11,900	<u>169</u>
Total		<u>\$ 621</u>

W. G. Niemann, Manager
 Payables, Receivables & Property Management
 Orgn. 9600/64, Ext. 2088

NORTHROP

Classified
 10-9-1974

265

Northrop Special Investigation
 Computation of E.D.C. Sales Commission Payments as of 12-31-73

NORTHROP PRIVATE

DIRECT SALES

Mandatory Commissions - E.D.C.

As of 12-31-73

Republic of China

<u>Contract</u>	<u>Contract Total</u>	<u>Commissionable Amount</u>		<u>Advances Received</u>	<u>Commission Base</u>
ROC/NOR-73-001	\$ 1,500,000	\$ 1,500,000	100%	\$ 1,500,000	\$ 1,500,000
-002	17,707,000	3,800,000	21%	4,810,000	1,010,000
-003	<u>42,400,000</u>	<u>42,400,000</u>	100%	<u>10,590,000</u>	<u>10,590,000</u>
	\$61,607,000	\$47,700,000		\$16,900,000	\$13,100,000

Commission

1 1/2% of 1st \$10M = \$150,000

1% of next \$30M = 31,000

\$181,000

Brazil

<u>Contract</u>	<u>Contract Total</u>	<u>Commissionable Amount</u>		<u>Advances Received</u>	<u>Commission Base</u>
03/1973 COXIAN	\$72,313,200	\$61,596,400	85%	\$11,000,000	\$ 9,350,000

Commission

1 1/2% of 1st \$10M = \$140,250

321,250 70716 11/16/749600/64
3-4-74

NORTHROP PRIVATE

PART B - 2 c.

OTHER AGENTS IN EUROPE

DeFrancis Copy

267

Wilco, S. A.

DECLARATION

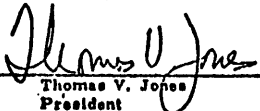
Consistent with the established policy of this Company and the international policy of the United States Government that foreign business be expanded by United States manufacturers to improve the balance of payments position, Northrop has undertaken expanded efforts to achieve increased sales of its products and services in the international marketplace.

In support of this important and growing part of our business, I have found it necessary to secure the advice and assistance, from time to time, of various organizations and individuals whose unique qualifications and particular familiarity with the international customer further these objectives.

As an example, during recent years, I have retained the services of the following for the purpose of directly and personally advising me of international problems relative to this Company's business activities in various foreign countries:

1. Euradvice Co. of Basel, Switzerland provides general business, marketing and advisory services to me concerning Western European sales of military aircraft, electronics, communications, and other Northrop products.
2. Mr. Frank J. DeFrancis renders advice to me on a long range foreign marketing program, and additionally, he has been retained by the Company to provide legal assistance to my staff and Legal Department on several major proposed international business transactions.
3. Wilco S. A. of Geneva, Switzerland provides advice and information to me dealing with the general business and economic conditions in those European markets where Northrop is pursuing major sales activities.

Signed at Los Angeles, California this 29th day of October, 1971.


Thomas V. Jones
President

Not given to DAA auditors, I believe
R. J. Jones
10/31/71

Extract from letter from T. V. Jones to E. R. Crim, Sept. 1974

HUBERT WEISBROD

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ACTIVITIES

The Weisbrod arrangement resulted from concern that while Northrop was being quite effective in presenting its product to the military and defense department levels with Holland, Belgium, Norway, Denmark and certain other NATO countries, our ability to have access to behind-the-scenes knowledge of what was happening at the political and economic levels, especially in the higher NATO and European community councils as a whole was seriously lacking. The ability to obtain advice on how to best develop industrial relationships in each country that would not only allow the project to be implemented properly but would yield the most attractive sales package from an overall economic, political and industrial point of view. In view of the complexity of relationships between the European Common Market countries of NATO and the Out Six, this was considered important. Also, it was felt necessary to have individuals with the highest credentials working behind the scenes in supporting Northrop's efforts.

It was suggested to the President of Northrop by several individuals at the highest levels within the European community that we consider hiring an individual who had been second in command of the highly successful Lockheed F-104 sales efforts in Europe and who had just left Lockheed's employ. He was Mr. Fred Meuser, a Dutchman who, prior to his joining Lockheed, had been very well connected as a businessman in Europe and in Holland. In my discussions with Mr. Meuser, he said he had intended to retire to St. Moritz, Switzerland and continue acting as a consultant to Lockheed, but his strong recommendation to me was to employ the services of Weisbrod, who had the proper relationships and knowledge to be helpful.

Dr. Weisbrod has effectively acted in behalf of Northrop's interest over the period of time from 1965 through the middle of 1973 in a major way, and to a somewhat lesser extent, since that period. During this period, and largely as a result of Northrop's direct sales efforts, the F-5 was sold to the Dutch Government and almost sold to the Belgian Government and continuing sales to the Norwegians. He has been provided advance monies to continue his efforts in our behalf not only in the F-5, but also in the -530 program that was developing. Recent activities in our behalf continued as our efforts moved into the F-5E and the -530 which four countries, Denmark, Norway, Holland and Belgium are playing the lead part in Europe. One complicating factor in paying Dr. Weisbrod under the terms of the agreement is the fact that while the Dutch purchased the F-5 as a result of Northrop's overall efforts, they purchased them from the Canadian Government as a result of a diplomatic power play by the Canadians to secure the business for themselves. As a result of this particular power play, Northrop is presently suing the Canadian Government. The actual resolutions of monies due under the Weisbrod contract can only be resolved after this litigation and other factors concerning follow-on spares are determined.

QUALIFICATIONS

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Dr. Weisbrod, a Swiss citizen, has had a distinguished international legal career for 45 years. For many years he was a close advisor on the European scene to Mr. Fred Meuser when Mr. Meuser was Director for Europe, Africa and the Near East for Lockheed. Dr. Weisbrod indicated channels to follow, whom to contact and how best to further the interests of Lockheed in Europe. Mr. Meuser gives credit for much of Lockheed's success for its sales of commercial and military aircraft, particularly of the unique and highly profitable export program of the F-104 Starfighter, to Dr. Weisbrod's expert counseling and behind the scenes activities. Practically all his efforts on behalf of Lockheed were done discreetly and indirectly and seldom did he appear in the open in Lockheed's behalf.

In view of his outstanding qualifications, his extensive high level contacts and his proven success in a highly sensitive area, his services were recommended by Mr. Meuser when Lockheed no longer had a fighter program competitive to Northrop's.

COMMENTS

As a result of Dr. Weisbrod's activities, Northrop has had an unusual visibility into the highest councils of NATO, the Common Market community, and the many official and unofficial discussions between the highest officials in Europe as they affect the sale of the Northrop aircraft. It is believed that his activities have been one of the keys, for example, to the development of the possibility of the German financing of the initial development of the -530 by the German Government (highly confidential), which offer was made officially by the Germans but could not be picked up by the Dutch because of the fall of their government. Also, most recently he has been most helpful in the attempt to get the four countries, Belgium, Holland, Norway, Denmark to act in concert on the -104 replacement program and to the favorable acceptance of the P-530 as the proper solution to these countries.

HUBERT WEISEROD

THIS AGREEMENT, entered into in duplicate as of the 26th day of April, 1968, by and between NORTHROP CORPORATION, a California corporation, with its principal office in Beverly Hills, California, U.S.A., herein called "Northrop," and HUBERT WEISEROD, an individual, with his principal office and place of business at 6 Gotthardstrasse, Zurich, Switzerland, herein called "Representative."

W I T N E S S E T H

In consideration of the mutual covenants hereafter set forth, the parties hereto agree as follows:

1. Representative is hereby appointed representative of Northrop for the sale of new F-5 aircraft to the Governments of the following countries (herein called "the Governments"):

Belgium	Luxembourg
Denmark	Netherlands
France	Norway
Federal Republic of Germany	Portugal
Italy	United Kingdom

"F-5 aircraft" includes (in addition to complete aircraft) components, assemblies, sections, parts, accessories and spare parts for such aircraft and includes all such manufactured and sold by a licensee of Northrop pursuant to a license agreement as well as those manufactured and sold by Northrop. "F-5 aircraft" does not include the T-38 nor aircraft that Northrop regards as outgrowths of or derived from or based upon the F-5 and which do not bear the basic designation, "F-5." "F-5-aircraft" does include versions of the F-5 that Northrop regards as mere model changes of the F-5 and which bear the basic "F-5" designation.

2. Representative shall devote his efforts to cultivating prospects for, and effecting, sales of new F-5 aircraft to the Governments. The efforts of Representative shall be consistent with sales programs given to Representative by Northrop from time to time.

3. (a) All costs, expenses, obligations and charges incurred by Representative in acting hereunder (including, without limitation, expenses of travel, subsistence and entertainment, office expenses, license fees, expenses of communicating

with Northrop when Representative initiates the communication and costs incurred by Representative in engaging, or resulting from the engagement of, associates, partners, employees, agents, or representatives) shall be borne by Representative and no claim shall be made against Northrop on account of them. Representative hereby indemnifies Northrop against, and agrees to save it harmless from, all such costs, expenses, obligations and charges and all claims, promises, guarantees, debts, obligations and liabilities of every nature and kind made, incurred, contracted, or created by Representative and any partner, employee, agent or representative of Representative. Representative shall not transfer funds to nor pay the expenses of any Northrop employee.

(b) Notwithstanding the foregoing Article 3(a), Northrop will reimburse Representative for any cost, expense, obligation or charge (including transfer of funds to or payment of expenses of a Northrop employee) if the cost, expense, obligation or charge is specifically assumed in advance in writing by Northrop. Northrop will also assume and discharge as its own liability (without recourse against Representative) any promise, guarantee, debt, obligation or liability specifically assumed in advance in writing by Northrop.

(c) At the time of submitting a claim for reimbursement of any cost, expense, obligation or charge specifically assumed in advance in writing by Northrop, Representative shall submit a copy of the authorization and shall itemize the claim in detail. Any claim not so documented will be disallowed.

4. (a) Representative shall perform his services under this Agreement as an independent contractor and he shall not be, nor be regarded as, an employee or agent of Northrop. No order from a customer, no contract and no other agreement shall be accepted, executed or approved by Representative in the name of or on behalf of Northrop, without specific advance written authorization by Northrop; and every order, contract and agreement shall include a provision that it is not binding upon Northrop unless approved in writing by the President or a Vice President of Northrop.

(b) No associate, partner, employee, agent or representative of Representative shall have any power or authority to accept, execute or approve in the name of, or on behalf of, Northrop, any order, agreement or contract or make, incur or create any claim, promise, guarantee, debt, obligation, expense or liability of any kind whatsoever in the name of or, on behalf of, or for the account of Northrop. All such associates, partners, employees, agents and representatives shall be solely those of Representative and not of Northrop

and no act of any of them shall obligate Northrop. 2/2

5. For the performance of services hereunder, Representative shall be compensated in accordance with the following provisions:

(1) Northrop shall, at its sole discretion, from time to time pay Representative amounts determined by Northrop, in its sole discretion, to be fair and reasonable interim compensation for services theretofore performed or to be performed by Representative.

(11) Northrop shall pay Representative one percent (1%) of the price received by Northrop on account of sales of new F-5 aircraft by Northrop directly or indirectly to any of the Governments. Northrop shall also pay Representative one percent (1%) of the royalties received by it from a licensee who, pursuant to its license, sells F-5 aircraft directly or indirectly to any of the Governments. For purposes of computing the compensation payable under this subparagraph (11), there shall be included payments received by Northrop for services rendered in connection with or as part of the sale of new F-5 aircraft to any of the Governments.

(111) The compensation referred to in subparagraph (11) above shall be payable only with respect to sales pursuant to contracts executed and rendered fully effective subsequent to the date this Agreement becomes effective and prior to the termination of this Agreement, including, however, amendments and supplements to such contracts whether such amendments or supplements are executed before or after the termination of this Agreement.

(iv) Amounts paid as compensation under subparagraph (1) above shall be a credit against amounts due as compensation under subparagraph (11) above, and no amounts shall be payable under subparagraph (11) above until after all amounts paid under subparagraph (1) above have been first liquidated through such crediting. Compensation under subparagraph (11) above shall be due only as payments are received by Northrop and at the option of Northrop may be paid in United States Dollars or in the currency of the purchasing Government. If Northrop's contract is other than a firm fixed-price contract, Northrop may withhold up to twenty-five percent (25%) of the compensation otherwise due to Representative until Northrop is certain of the total amount of payments to be received by it under the contract. Thereupon, such adjustments shall be promptly made as

will give Representative the compensation provided for in this Article, subject only to the receipt of payments by Northrop. All payments to Representative shall be made to him at the address set forth above or at such other address as he may specify in writing from time to time. 21-

(v) No compensation shall be payable under subparagraph (ii) above on account of any sale of F-5 aircraft to the extent that the United States Government or any agency, department or instrumentality thereof, directly or indirectly pays the purchase price. This is not intended to exclude from compensable sales those sales in connection with which the United States Government or any agency, department or instrumentality thereof lends money for the purchase or guarantees a loan to, or performance of the contract by, the purchaser, unless the terms of such loan or guarantee prohibit payments of the nature contemplated by subparagraph (ii) above.

(vi) In no event shall the total payments hereunder to Representative exceed One Million Dollars (\$1,000,000). For purposes of this maximum, "payments" includes costs, expenses and charges reimbursed to Representative or assumed by Northrop and obligations and liabilities of Representative assumed by Northrop.

6. This Agreement shall not prevent Northrop from appointing (or continuing the appointment of) another person or persons (including bona fide employees of Northrop) to represent it for the sale of F-5 aircraft to any or all of the Governments. However, notwithstanding any such appointment or continuation of appointment, Representative shall be paid the full amounts specified in Article 5 with respect to all contracts falling within the scope of Article 5. Representative agrees to assist and cooperate with such appointees and employees in every reasonable manner.

7. Representative shall, prior to making any offer for the sale of F-5 aircraft, obtain from Northrop instructions concerning the terms of such offer. Northrop shall use its best efforts to keep Representative currently informed with respect to its policies affecting the sale of F-5 aircraft.

8. Northrop reserves the right to accept or reject any and all orders submitted by Representative. Representative shall have no right to compensation or other payment hereunder based upon the claim that a contract falling within the scope of Article 5 could or would have been entered into except for (i) some alleged fault, action or inaction on the part of Northrop or (ii) some cause beyond the control of

Representative of Northrop or (iii) Northrop's rejection of the contract.

9. Representative shall not make any statement orally or in writing that indicates or implies that the performance of the F-5 aircraft is better than as set forth in Northrop's guarantees of performance in its specifications and purchase agreements.

10. Neither this agreement nor any claim for monies due or to become due hereunder may be assigned by Representative without the prior written consent of Northrop.

11. Wherever in this Agreement, provision is made for written authorization, assumption or approval by Northrop, such written authorization, assumption or approval may be given only by the President or a Vice President of Northrop.

12. It is recognized by Northrop that prior to the effective date of this Agreement substantial services of the kind contemplated by this Agreement have been performed by Representative. It is agreed, however, that prior to the date of this Agreement no contract entitling Representative to the compensation specified in Article 5 has been executed.

13. This agreement shall be interpreted and construed in accordance with the laws of the State of California and the United States of America. This written instrument constitutes the entire agreement between the parties and shall not be varied, amended, or supplemented except by an instrument in writing executed and delivered by both parties.

14. This Agreement shall become effective as of , 1968, and shall continue until it is terminated by either party upon thirty (30) days' notice to the other, given by registered mail, cable, or radiogram, directed to the appropriate address set forth above, or to such other address as may have been specified in writing. Termination of this Agreement shall not relieve Northrop of its obligation to pay Representative compensation pursuant to Article 5 on account of contracts theretofore executed during the term of this Agreement and amendments or supplements to such contracts as stipulated in Article 5 (iii).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date fixed in Article 14.

NORTHROP CORPORATION

BV

Hubert Weisbrod

LA TEGIA
ST. MORITZ

August 10, 1974

Dear Tom,

The other day it occurred to me that it is just about 10 years ago that you and I first discussed your Company's need for a top European consultant to discreetly act, as a "gray eminence" to further Northrop's interests in the important nations over here. In the course of our discussions in the following months in which I got more intimately acquainted with the qualifications required, I recommended to you that Northrop contract for the services of my old and proven friend Dr. Hubert Weisbrod in Zurich, whom I considered eminently suited for this highly sensitive position.

You may remember that I am a born Netherlander and that I studied engineering at the Swiss Federal Institute of Technology in Zurich from which I obtained my master's degree in 1932. In the same small boarding house where I roomed, also stayed Hubert Weisbrod who was studying law at Zurich University. From those early days Hubert and I are friends and therefore we know each other more than 45 years. Whenever I had a problem as a student, Hubert was my trusted advisor and he always resolved it in a professional manner. Later, while my career in KLM and wartime service in the RAF took me around the globe, Hubert made a distinguished international legal career from his base in Zurich. He travelled extensively, he made and maintained the highest level contacts but always remained a solid Swiss citizen. Both he and his wife Mary took out their private pilot's licenses, he was elected President of the Swiss Automobile Club, Mary became Swiss waterski champion and both are still dedicated downhill skiers, even though Hubert is 70 next year spring. Recently Mary set up a stud-farm in Gstaad to breed and train racing horses and Hubert goes as strong as ever after his legal work and associated interests.

During all these long years Hubert was at my side whenever I needed advice on matters European. Especially ever since 1954 when as a naturalized American citizen Lockheed transferred me to Switzerland as Director for Europe, Africa and the Near East, Hubert was my close advisor on the European scene, he indicated channels to follow, whom to contact and how to go about it and how to spread the name of Lockheed as a base for business in the future in the nations of Europe.

I had been absent from the Old Continent for about 12½ years and things in general had obviously considerably changed, not to speak of my pre-war contacts. Much of the success I could book for Lockheed in the following years in the field of sales of commercial and military aircraft and particularly of the unique and highly profitable export program of the F-104 Starfighter, was in no small measure due to his expert counselling and behind the scenes pulling of strings. Hardly ever did Hubert appear in the open for the support of Lockheed's interests; practically all his constructive work was done discreetly indirectly.

When you told me 10 years ago of Northrop's needs with respect to the F-5 program in Europe, I really felt that Hubert could do an equally fine job for your Company, especially as Lockheed had not at that time and still has not any fighter program competitive to Northrop's. This is the reason, Tom, why I recommended you contract for his services and now, looking back over the years, I am extremely happy to see Northrop's position in Europe immensely strengthened in that period, your aircraft in operation in several nations, your corporate presence firmly anchored in several European aerospace industries and Northrop's chances to sell new programs to European nations very good indeed. Even in Switzerland, a country which is not covered by your contract with Hubert if I remember well, the Tiger's chances are excellent and I might add that Hubert has made some discreet contributions to this situation as well.

Although all the foregoing is known to you, I am writing this letter to you at this time because I want to express my satisfaction that you accepted my recommendation and that things worked out so obviously so well, at least seen from where I sit. Recommendations are accompanied by a certain responsibility and you know yourself, Tom, from your own experience no doubt, how unfortunate it is if one's recommendations do not work out and so I believe you will agree that we should pause for a moment and realize that this particular one was and still is a success. Hoping to see you at Farnborough (I will arrive at Claridge's late Sunday September 1st), I am, with warmest personal regards,

Thomas V. Jones, Esq.
President NORTHROP Corporation
1800 Century Park East
Century City
Los Angeles, California 90067

sincerely,
John
C. Fred C. Meuser

Excerpt from letter from T. V. Jones to E. R. Crim, Sept. 1974

GENERAL [REDACTED]

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On March 20, 1964, a letter offer of a consulting contract at the rate of \$5,000 per year was sent to General [REDACTED]. This resulted in a contract being drawn up on April 17, 1964, and General [REDACTED] signed it on April 30, 1964. The contract was renewed annually on the same terms until March 7, 1968, when compensation was increased to \$6,000 per year. Again, it was renewed annually on the same terms until February 28, 1974, when compensation was increased to \$7,500 annually.

ACTIVITIES

His primary responsibility is the analysis of all political economic and military situations in Europe, with changing relationships between principal countries and emphasis on defense-related programs. His secondary responsibility is the alerting of Northrop to business opportunities in the defense-related areas as they arise.

He submits to me approximately every two weeks through comprehensive letters and also is in direct communication with our Paris Office, perhaps once every two weeks or oftener when something of interest arises. In addition, there are meetings held on occasion of Northrop officers' visits from Los Angeles to Europe, perhaps once monthly, and during visits of General [REDACTED] to the States about once every two years.

QUALIFICATIONS

General [REDACTED] had an outstanding military career in the French Air Force and held many key related diplomatic positions. As an example, he was French Air Attache to Germany at the outbreak of World War II. During and after World War II, he was Air Attache to such countries as Great Britain and the United States. He rose rapidly through the ranks of the French Air Force, becoming Chief of the French Tactical Air Command. At the time of the Suez crisis, he was responsible for deploying some 600 French aircraft to the Island of Cyprus. Later, he became Chief of Staff of the Air Force during the very important period of President de Gaulle's rise to power.

General [REDACTED] speaks fluent French, English and German, and has been the author of several authoritative military, diplomatic and world affairs books. He has been a lecturer at Harvard University on geopolitical subjects, the U. S. Council of Foreign Relations and the Los Angeles World Affairs Council.

COMMENTS

General [REDACTED]'s highly perceptive analyses have been very important in our understanding of the current and future trends of things in Europe as they affect our fundamental business in aircraft, electronics and communications. He continues to be a valuable source of understanding. He has usually been able to spot and identify changes in national policy as they affect defense months or even years ahead of others.

General [REDACTED] (continued)

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To my knowledge, General [REDACTED] has never provided funds to third parties at the direction of the Northrop Corporation and has never remitted any funds back to the United States for any purpose. He is not on an expense account basis.

General Paul Stehlin
6, rue du Cirque
75008 Paris

NOTED
P.1

Mr. Thomas V. Jones
President and Chairman
Northrop Corporation
1800 Century Park East
Century City, Los Angeles,
California 90067, U. S. A.

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Paris, January 23, 1973

Dear Tom:

It is especially during the debates in Parliament and in my contacts with several of my German colleagues, that I had favorable occasions to make good use of the information you have been providing to me. I also met with Geoffrey Parsons for an exchange of information in order to provide you with exploitable elements of a good strategy.

The most important fact to be taken into account is the present state of tension between the European aircraft industry and the governments. Due to the high cost of aircraft produced in small quantities, the air forces concerned - British, German, French - complain about their rapid decline in strength. In France, for example, Dassault has been in a position, to a certain point, to build larger series as long as the company had possibilities of export. This seems now, anyway for the time being, to have come to an end. Dassault is threatening now to close part of his plants if the government does not increase its orders. Since we are close to new elections this will take place later. In the meantime, an appreciable number of persons have no work to do in the factory. Therefore a common solution has to be found within NATO. That is where we have to come in with proposals such as those which were applied in the first years of NATO.

However, I doubt very much that anything really constructive can be achieved before the start of the European Security Conference. The governments will decide, as an excuse for doing nothing, to wait for the outcome of the conference as well as of the proposal for a mutual and balanced military strength reduction in Europe. However, right from the start, the press will inform on the comparative strength of forces between East and West. That is what I have already done in a book, just published a few days ago, "La Force d'Illusion". The purpose is to show the decline of NATO and to warn against the increasing superiority of the "Warsaw Pact" military forces. My reasoning is that, since such an effort can not be repeated indefinitely, these forces have to be used sometime, unless they can be checked by equivalent forces on the other side.

You could and should take advantage of that situation to engage in a press campaign so that, at least in the field of tactical air forces, you have a solution to offer with the P 530 Cobra concept, which would

31 JAN 1973

- 2 -

General Paul Stehlin
6, rue du Cirque
75008 Paris

Thomas V. Jones
January 23, 1973

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allow NATO to produce with the same national budgets, a multiple of what it is doing now in a state of wasteful dispersion of efforts. I think it is along these lines that you will have to shape your commercial strategy, in which I would assist you by all means at my disposal. Of course, I shall discuss that with Geoffrey Parsons, whom I shall provide with all information on the subject I can collect.

As you see we have moved to another appartement, 6, rue du Cirque, which is very close to the Elysee Palace.

Anne-Marie and I are looking forward, as you promised in your letter, to seeing you soon in Paris, Ruth and you. The elections are taking place in March: 4 and 11. I think it will be less difficult for me this time than it was in 1968.

With kindest regards to Ruth and you,

Sincerely,

Paul Stehlin

O. LOAD/GATES FROM TICE -

7/3/67

H. Le...
14(c)
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THE FOLLOWING TELEX FROM GALLAND TODAY

QUOTE

ON SUNDAY EVENING EYE WAS INVITED BY NO. 1 FOR DINNER AND TALKS IN HIS HOME WITHOUT ANY OTHER GUEST. IN THE COURSE OF THE TALKS HE ASKED ME ABOUT MY KNOWLEDGE OF THE RECENT PESS ACTIVITY FOR NORTHROP IN GERMANY. HE WAS AWARE ABOUT THE REPEATED VISITS PAID TO BOELKOW, VW, STRAUSS AND WARE. EYE TOLD HIM THAT EYE PERSONALLY WOULD NOT BE INVOLVED IN THIS ACTIVITY AND WAS ASKED TO STAY OUT. HE THEN ASKED ME TO TELL TV THAT HE WAS DISPLEASED ABOUT THIS APPROACH.

UNQUOTE.

TELECON WITH ADOLF PROVIDED ADDITIONAL CLARIFICATION.

FIRST NO. 1 PERSONALLY DISAPPOINTED THAT GALLAND HAD NOT PARTICIPATED IN ACTIVITY IN ORDER TO PROVIDE COORDINATION WITH NO. 1.

SECOND NO. 1 DISAPPOINTED THAT NORTHROP HAD SEEN FIT TO BY-PASS HIM AND GAF FOR POLITICAL APPROACH.

THIRD NO. 1 STATED THAT THE PROGRAM COULD NOT BE SUCCESSFUL WITHOUT GAF SUPPORT WHICH COULD NOT BE FORTHCOMING UNDER PRESENT CONDITIONS OF NORTHROP OPERATION. ADOLF ASSURES ME THAT MEETING AND QUESTIONS THIS SUBJECT WERE INITIATED BY NO. 1. AND DUE TO TIME LAPSE SINCE MISUNDERSTANDING AT PAS EYE THINK THIS HIGHLY PROBABLE. GALLAND IS MAKING COMPLETE REPORT OF HIS MEETING DIRECT TO TVJ PER MY REQUEST DUE TO POSSIBLE SENSITIVITY.

TICE.

7.3.67 19H45

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J. GERRITSEN

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The original contract was dated August 7, 1967, and was for a period of five years at \$10,000 per year. Mr. Gerritsen was specifically asked to keep abreast of European economic and political conditions and developments. He acts as an independent contractor - not as agent or representative. He cannot make commitments for the company. Upon the expiration of the original contract, it was extended for one year at the same rate, terms and conditions. On May 10, 1973, the contract was again extended through June 30, 1974, with no changes in rate, terms or conditions. Although Mr. Gerritsen is allowed travel expenses when directed by the company, they have not been used to any great extent.

ACTIVITIES

Although Mr. Gerritsen was asked to keep abreast of European activities, his main area of activity was to act as a trusted communications channel between the highest levels in the Dutch Government and the President of the Northrop Corporation. The Dutch, being very circumspect in their business dealings at the highest level, are very careful in their communications channels and do not like to use written means of communications in sensitive areas. An example of a sensitive area would be a suggestion that the President of Northrop or one of the Vice Presidents come to Holland to brief or present material. The Dutch reasons for this is that they are always conscious if they ask one contractor or one country to come in and discuss something, it is usually followed by requests for equal time by other companies or countries; hence, in suggesting the timeliness of a visit, they prefer to keep through a secure channel. On the other hand, information of happenings in the United States that may be important as they affect some Northrop relationship with Holland, such as the possible award of a supporting contract from the U. S. Government, they prefer again to have verbal communications back through a trusted channel.

It was suggested by high government officials in Holland in 1967 that we establish an office in Amsterdam for this purpose. I suggested that this was expensive, and the level of activity in Holland did not warrant it, but could they, as an alternative, recommend an individual who might serve in a part-time capacity to provide this communication link as well as keep us abreast of overall happenings in Holland. It was for the purpose of providing confidential communications that Gerritsen was hired.

QUALIFICATIONS

Gerritsen is a well-known and outstanding individual in Holland. He comes from a fine Dutch family, and before World War II was a member of the Olympic swimming team and the Dutch national soccer team. During the War, he was very active in the Dutch underground, with many decorations. He was captured by the Germans and was used in medical experiments which affected his health. He is a leader in an organization that preserves the close association between the Dutch underground leaders. His name was suggested as a communications link with Northrop by several of the highest levels in the Dutch Government as a completely trusted individual.

J. Gerritsen (continued)

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COMMENTS

While Gerritsen's level of activity on behalf of Northrop has not been high, when he has been used either by Northrop or by the Dutch Government, it has been in extremely important and sensitive situations that have been highly beneficial to our business-relationship in Holland. The Dutch have been the key country in Europe as far as leadership on Northrop's activities on the F-5 and the -530 programs.

To my knowledge, Mr. Gerritsen has never provided funds to third parties at the direction of the Northrop Corporation and has never remitted any funds back to the United States for any purpose.

KEY MEETINGS/GATES
File 171
p. 40

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Thomas V. Jones (NCC - LAX)

INTEROFFICE MEMORANDUM

from: Geoffrey Parsons (Paris)

Meeting with H.L. Visser of the Netherlands

date: 27 September, 1971

C.R. Gates (NCC - LAX) ✓

ref:

M. Kuska (NAD - Hwth.)

N. Heath (NAD - Hwth.)

I spent about 3 1/2 hours with H.L. Visser on 15 September. He had been recommended to us by Maj. Gen. Bosch of the Royal Netherlands Air Force, and had already visited California where he talked to Walt Byers and Norval Heath. It was at their recommendation that he called me in Paris and came to see me. From Bob Gates I gathered that there was no interest, at least immediately, in California in employing him as a Dutch consultant.

After talking with him, however, I believe we should take another look at Visser. In particular, I think you should discuss him with Prince Bernhard, and the next time you see him, Hans Gerritsen. I say this because Visser told me that Hans Gerritsen had suggested that Visser join his firm and work with Hans' son who I gather is now in his thirties. Hans apparently suggested that Visser should handle the Northrop account, while he and his son continue to work for Lockheed.

I fully recognize that we would probably not consider this a feasible arrangement so long as the Northrop P-530 and the Lockheed CL-1200 were in competition for the Dutch choice. The moment, however, that the decision was fixed in Northrop's favor, I would think that this would be an almost ideal arrangement.

Although the company has excellent top-level relationships in Holland, I still believe we will need intelligent and effective local help to get the P-530 programme past the economic and political barriers in the Dutch Parliament.

I recommend therefore that you and Bob Gates discuss this question with Prince Bernhard the week-end of 9 October. I also would recommend that the next time you go to Holland, you let me arrange a meeting with Hans Gerritsen and Visser.

I was very favorably impressed by Visser. He said that he had discussed financial terms from Northrop with Hans Gerritsen. To begin with this could run from nothing to a contribution to their overhead and would depend obviously on the business they can produce.

Geoffrey Parsons

NORTHROP

Office of the President and Chairman

July 18, 1974

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Mr. Antoine J. Leenaards, Chairman
Crown Cork Company (Belgium) S.A.
2, Place Albertine
Brussels, Belgium

Dear Mr. Leenaards:

Northrop Corporation has designed and is now prepared to proceed with immediate production of a new fighter aircraft, designated the "Cobra." This aircraft is designed to meet both the near-term and long-term requirements of the NATO countries, including, particularly, Belgium and Belgium's Benelux partner, the Netherlands, as well as Norway and Denmark. Other countries are or will be interested and involved.

Secretary General Luns of NATO has pointed out to the North Atlantic Council that the four members named above should take advantage of their common requirement for replacement aircraft for their aging Starfighters (and F-100's in the case of Denmark) by making a joint decision in favor of the best and most economical aircraft which can meet their future needs, probably up to the year 2000. The benefits to all concerned, and to the strength of the Atlantic Alliance, are obvious.

Northrop wishes to engage you as a consultant in connection with Belgium's role in this probable four-nation decision. We consider the Belgian decision as a key to a joint Belgo-Dutch decision in favor of the Cobra. Our information leads us to believe that the Cobra ranks No. 1 on the technical evaluation lists of the Dutch, the Belgians, the Norwegians, and, probably, the Danes. It would be a serious blow to the Atlantic Alliance if for political, or other reasons, a decision were made under Belgian pressure for an inferior aircraft which is barely capable of meeting the enemy's threat of today, let alone holding its own against the predictably more advanced threat of tomorrow.

Northrop, therefore, believes that not only in its own interests, but in the long-range interests of all the members of the Atlantic Alliance, we should undertake every reasonable effort to insure that a right decision be made in Belgium.

Northrop Corporation

1800 Century Park East

Century City

"new" consultant
(as per new survey in print)
Los Angeles, California 90087

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Mr. Antoine J. Leenaards

-2-

July 18, 1974

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This leads to our desire to avail ourselves of your services. We propose that you render advice and counsel to us in our marketing program for the Cobra in Belgium and, where appropriate, that you present or assist in presenting our Cobra program to the Belgian Government, all to the end that the Belgian Government may decide to order Cobra aircraft or participate with other countries in the development and production of the Cobra. We suggest the following terms for this engagement:

1. We will pay you a consultant fee of Five Thousand Dollars (\$5,000) per month, payable monthly in advance, commencing as of May 1, 1974. Payment shall be made upon the submission by you of invoices, describing briefly the nature of the services rendered by you for which the invoice is submitted. Payments shall be made to UNIFINANCE CORPORATION (Attention Mr. Francois Mayor) 2, Place Bel-Air, 1211 - Geneva - II, Switzerland, Account: No. 651.081 at Credit Suisse, Geneva.
2. In submitting to us your advice and counsel, and in determining the form and manner in which your assistance to us shall be rendered and reported, you shall consult and communicate with Mr. Thomas V. Jones, Chairman and President of Northrop Corporation, or his designee.
3. The term of this agreement shall begin May 1, 1974 and end December 31, 1974. The term may be extended by written agreement of the parties.
4. Your relationship to the Company shall be that of an independent contractor rendering professional services. You shall have no authority to execute contracts or make commitments on behalf of the Company, and nothing contained herein shall be deemed to create the relationship of employer and employee or principal and agent between you and the Company.
5. It is understood that the fee payable to you hereunder is intended as compensation to you only and that you are not authorized to compensate, or make payments to, any other person on our behalf.

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Mr. Antoine J. Leenaards

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July 18, 1974

6. Neither you nor the Company shall have any obligation to each other subsequent to the termination of this Agreement except for amounts due you in accordance with the terms hereof, and except that you shall not disclose any of the Company's proprietary information, either written or oral, which may have come to your attention.
7. In the course of performing services hereunder, you shall comply with all security requirements of the United States Government affecting the Company, and you agree not to engage in any services for which you do not have a proper security clearance. Additionally, throughout the term of this Agreement, you will not act as a consultant for any other company concerning business matters covered by this Agreement that might give rise to a conflict of interest as determined by the Company in its sole discretion.
8. Any notices to be given in connection with this Agreement shall be in writing and mailed, postage paid, addressed as applicable to:

Northrop Corporation
1800 Century Park East
Los Angeles, California 90067
U.S.A.

Attention: Mr. Thomas V. Jones
Chairman and President

or

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Mr. Antoine J. Leenaards

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July 18, 1974

9. You agree not to make any public or private disclosures concerning the work you will be performing under this Agreement, either during or following the term thereof, without prior written approval of the Company.

If the foregoing terms are acceptable to you, please sign and return this original and two (2) copies of this letter to the undersigned.

Very truly yours,

NORTHROP CORPORATION

By Thomas V. Jones
Thomas V. Jones
Chairman and President

ACCEPTED:

Antoine J. Leenaards

Dated _____ 1974.

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PART B - 3

MATERIAL RELATING TO KENNETH ROOSEVELT AND ASSOCIATES, INC.

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Office of the President and Chairman

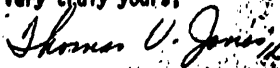
23 August 1974

Mr. Raymond Crim
Ernst & Ernst
c/o Northrop Corporation
1800 Century Park East
Los Angeles, California 90067

Dear Mr. Crim:

Again, in the thought that it may be of some help to you, I enclose a narrative statement relating to the relationship between Kermit Roosevelt & Associates, Inc. and Northrop Corporation, together with a further narrative statement containing additional comments respecting EDC and Mr. DeFrancis.

Very truly yours,



Thomas V. Jones

cc: Mr. C. L. Peck
Chairman, Audit Committee

Northrop Corporation

1800 Century Park East

Century City

Los Angeles, California 90067

-145-

EXHIBIT IV-H2

KERMIT ROOSEVELT & ASSOCIATES, INC.

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The original consulting contract appears to have been between Mr. Roosevelt and Northrop International. It is dated January 4, 1965, although there is not a copy in my office files. All early correspondence was between Mr. Roosevelt and General Timberlake of the International Division. On October 31, 1967, the contract was extended for an additional year with compensation to be at \$15,000 minimum per year. The contract was renewed on May 28, 1968 and compensation increased to \$45,000 per year, with one-half of Mr. Roosevelt's time to be devoted to Northrop. Mr. Roosevelt was to act as an independent contractor, not an agent, nor can he execute contracts on behalf of Northrop. The contract was renewed annually on the same terms and conditions until April 6, 1971, when the fee was increased to \$60,000 per year. On April 10, 1973, the new contract increased the compensation to \$75,000 annually.

Mr. Roosevelt is fully reimbursed for expenses incurred on behalf of Northrop upon presentation of his accounts.

ACTIVITIES

Mr. Roosevelt & Associates' activities have been primarily with developing Northrop relations in the Middle East, Iran, Saudi Arabia, with secondary relationships with the Sheikdoms of Abu Dhabi, Bahrain, Qatar and Dubai, and the Sudan, and to a certain extent, Egypt. Mr. Roosevelt's job is to monitor all activities in the Middle East and inform Northrop of important events and trends; also to actively participate in establishing and maintaining the contacts of Northrop with the highest levels of government in the Middle East. He has accompanied the President of Northrop on virtually all of his trips in this area, usually preceding him by several days or a week to set up appointments and get an up-to-date estimate of the situation. Then, usually, to remain after departure to insure that decisions made at these high levels between the President of Northrop and the Middle Eastern Government are properly followed up both within the governments and within the Northrop Corporation.

QUALIFICATIONS

Kermit Roosevelt is the son of Kermit Roosevelt and the grandson of Theodore Roosevelt. He has been active in behalf of the U. S. government in the Middle East for a great number of years. As such he follows in the footsteps of his father, who was active during and after World War I. He has direct and highly personal relationships with the chiefs of state and principal figures in most of the governments of the Middle East.

COMMENTS

Kim Roosevelt has been perhaps the key figure in establishing the very high level of activity Northrop now has in the Middle East, with contract values in this area in the past 7 or 8 years running close to a billion dollars of work done and sales and orders booked. This largely in Iran in aircraft and communications and the establishment of a business enterprise, the Iranian Aircraft Industries, in which Northrop is one-half owner, and in Saudi Arabia where we have sold aircraft and presently have nearly 2,000 employees in place with excellent relationships for long-term sales potential.

Mr. Roosevelt communicates with all levels of the Northrop organizations as required and as often as circumstances warrant. He communicates with the working level, the vice president level and with me as necessary. 293

To my knowledge, Mr. Roosevelt has never provided funds to third parties at the direction of the Northrop Corporation and has never remitted any funds back to the United States for any purpose.

KE. ROOSEVELT
SEC. 11C
PAGE 168-173

KERMIT ROOSEVELT & ASSOCIATES, INC.
1110 CONNECTICUT AVENUE
WASHINGTON, D. C. 20006

FEDERAL 7-1446

March 17, 1965

General Patrick W. Timberlake,
Corporate Vice President,
Northrop Corporation,
9744 Wilshire Boulevard,
Beverly Hills, California 90212

Dear Pat:

I went up to New York yesterday for a meeting with Anas Yassin who is taking off tomorrow to return home for consultation with the King.

Anas started off by telling me that in spite of the reports which the Pentagon has received, he has more than a hunch that the F-5 will be the King's final choice. Subsequently, he expanded this to say that when Prince Sultan, after his conversation with the Americans (presumably Hooper and party), reported to the King that his committee of experts had recommended the F-104G, the King said that he would not accept this recommendation. The airplane is too expensive to purchase, maintain and operate, and entirely beyond Saudi capabilities. Anas says that he believes the King to favor the F-5 but, of course, one cannot tell how much of this is guess and/or wishful thinking. Anas said he wrote the King a long and persuasive letter on the F-5 and he thought this had considerable effect on the King's thinking.

I suggested to Anas the combination of the Hawk and the F-5, and he absolutely leapt at the idea. He said that if I could give the King an informal assurance that if he requested this combination, the U. S. Government would allow him to have it, he was sure the King would make such a request immediately. We have arranged a method whereby I can communicate with him while he is in Riyadh if, in my judgment, the situation warrants it.

Other points made by Anas:

The United States should offer the Saudis longer terms to more or less equal the French offers. He does not suggest that there should be any change in price, but simply that the payments should be extended over a longer period.

Page should have an agent to deal with the officers and other hangers-on who keep holding their hands out for money. He was quick to say that they should not be paid, but that we ought to have a "good agent" to deal with them. I did not mention Page's present agent and neither did Anas specifically

INFO	
Mr. Tolson	
Mr. DeLoach	
Mr. Mohr	
Mr. Bishop	
Mr. Casper	
Mr. Callahan	
Mr. Conrad	
Mr. Felt	
Mr. Gale	
Mr. Rosen	
Mr. Sullivan	
Mr. Tavel	
Mr. Trotter	
Tele. Room	
Mr. Holmes	
Miss Gandy	

General Patrick W. Timberlake

- 2 -

March 17, 1965

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mention him, but the intimation clearly was that he was not a "good agent";

Anas said flatly that he knew that Lockheed had bribed certain officers and he would tell this to the King. He felt that this would be a strong weapon in his armory while he tries to substitute the F-5 for the F-104. I had explained to Anas that there would be very considerable difficulty in getting permission in various quarters of the United States Government for providing the Saudis with the F-104G, but Anas professed not to be too interested in this since, in his opinion, the King has already said no to this particular plane.

Anas says that he knows positively that there have been leaks from the Pentagon to the Saudi Arabs revealing various discussions and decisions in the Pentagon concerning this whole program. He said that, for instance, the Saudis were informed that Ambassador Hart had been instructed to support the F-5, and that certain Saudi Air Force officers argued that the U. S. was trying to "palm off" inferior aircraft on the Saudis because of their pro-Israeli sentiments.

I have talked to a friend in my old place of employment who
~~seems to be somehow or other involved in various discussions relating~~
 to the decision. He reports that Peter Solbert, whom I am seeing this afternoon, says that sufficient study has not been made of the problem but that he, my friend, thinks that the time is ripe to push our formula. He will start doing this himself immediately and urged that I talk to Solbert, Komer and Talbot, or someone on Talbot's staff. Clay and I will take this on immediately.

One final item: I met with former Secretary of the Treasury Robert Anderson yesterday afternoon to talk to him about the Middle Eastern situation generally. He is one of those always eager to give Nasser another chance and inclined to the belief that if one could only talk to him frankly and effectively, he would "see the light." Apart from this delusion, Anderson's views are otherwise satisfactory, and the important thing is that he agreed to urge upon the President, whom he is seeing tomorrow, the desirability of convincing King Faisal that we really will support him. Specifically, he agreed to urge the President to write Faisal a personal message asking him, as an old,

General Patrick W. Timberlake

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March 17, 1965

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valued and very wise friend, to advise him, Johnson, on the Middle Eastern situation and what course the United States should pursue. This gesture costs nothing and would please Faisal very much, and Anderson promised to urge it strongly upon the President.

Best regards,

KRM

Kermit Roosevelt

cc: Colonel Clay Tico (c/o Mr. A. P. Fonda) - Washington
Mr. Charles Ill - Washington

HERMIT ROOSEVELT & ASSOCIATES, INC.

1120 CONNECTICUT AVENUE
WASHINGTON, D. C. 20036

FEDERAL 7-1440

March 19, 1965

**General Patrick W. Timberlake,
Corporate Vice President,
Northrop Corporation,
9744 Wilshire Boulevard,
Beverly Hills, California 90212**

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• Dear Pat:

I had a long meeting with Pete Solbert on St. Patrick's Day afternoon. The result is a materially different understanding (not necessarily a correct one) of what the Saudi situation as seen by the Pentagon really is.

Solbert started out by asking me whether in my opinion it was necessary or desirable that the United States make a firm recommendation on a package proposal for Saudi defense requirements. He said that he was not really sure that such a recommendation had been specifically requested by Sultan, nor was he sure that it was desirable from the DOD point of view to make such a recommendation. He expressed confidence that the Saudi Government would be very reluctant to settle for either the French or British offers. He inclined to the view that the United States should stand its ground, offering the F-5 or the F-104H, with a frank description of the relative advantages and disadvantages of the two planes from the point of view of Saudi requirements, both military and economic. He said that if the Saudis should choose the F-104H and should, over the next years, evince a capability of making use of the more sophisticated equipment of the F-104G, this could be installed.

He had started off asking for my opinion, but he talked a good long time before I could get much chance to express one. Eventually I suggested that, if he felt reluctant to make a firm recommendation, he should call upon King Faisal himself and take the following general position: that he would be quite willing to answer with complete frankness any questions that the King had about the various items being offered to him by the USG; however, he could talk only about specific considerations such as military capabilities, cost in terms of money and personnel, and comparative difficulties of utilization of different items under Saudi Arab conditions. This much he could do, but what he felt he could not properly do was making other relevant judgments which could be made only by the King himself. These judgments would be on such internal Saudi problems as might be created, for example, by the reaction of the King's Air Force officers to the selection or rejection of specific items which might be best from the point of view of Saudi material interests, but lacking the glamour possessed by other items which the Saudis in actual fact would be able

General Patrick W. Timberlake - 2 -

March 19, 1965

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to utilize only with great difficulty if at all.

Solbert liked this idea very much, but said that he felt this mission should be undertaken by Ambassador Hart and not by a special emissary. I said that I thought that as long as Pete Hart had with him someone qualified to answer the King's specific questions about equipment, Pete could do the job very well. I know that he has the King's confidence. However, I want to emphasize the importance in my view of insuring that the meeting be with the King alone. With Sultan present, many of the points that Hart should make could not be made effectively and without embarrassment. On thinking this over since my conversation with Solbert, I am now of the opinion that we should recommend to Solbert that Hart himself be alone in seeing the King for the first meeting on this subject and that he offer to make available to the King directly some qualified officer with broad Air Defense Command experience, to answer the King's specific questions about the items on the program. The best qualified officer is, of course, Colonel John Benner, Deputy Chief, USMTM. I believe that if Hart asks for an audience with the King and says Colonel Benner is accompanying him, this will make it difficult for the King not to have Prince Sultan present. There would be no objection to Sultan being present at the later conversations that the King might have with Colonel Benner, and perhaps with Ambassador Hart as well.

I will discuss this idea with Clay and possibly call Solbert this afternoon or Monday.

Solbert has certainly not in any respect changed the opinion which he expressed to Prince Mohammad and Anas Yassin that the most realistic choice for the Saudis to make is the F-5. On the matter of the Hawk, Solbert agreed that it was the only practical defense against enemy attack at Western Saudi targets from across the Red Sea or from Yemen or, for that matter, from Sinai. He appears to be unaware that the availability of Hawks for the Saudis has again been under discussion, and generally took the position that this would be a political matter for the State Department to decide.

Just to illustrate the variety, and the explicitness, of reports that we receive, just before going to see Solbert I had been told in strictest confidence that an ARAMCO representative had been told by Sultan personally that he, Sultan, had told the U. S. Department of Defense that he must have word on the availability of the F-104G by the 18th of March or he would be obliged to buy the British or the French plane. When I mentioned this to Pete Solbert,

General Patrick W. Timberlake - 3 -

March 19, 1965

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he said frankly that if Sultan had made any such request, it had certainly gotten "lost in the mail." He did not for one minute believe that any such request had been made.

Clay and Paul Fonda will of course be checking the other levels in DOD to find out what is going on and whether the impressions that I obtained from Solbert are representative of other views in the Pentagon. My friends in CIA are also keeping an eye on things. Bob Komer of the White House has been so wrapped up in Cyprus (which, incidentally, looks extremely threatening) and the Congo since his return from Israel and Greece, that he has had little time to give to Saudi Arabia. He will probably have to go to London with Harriman this next week to talk to the British about Africa. However, I did have a long talk with him last night and was able to suggest to him our projected package deal. I am glad to say that Komer adopted the idea with enthusiasm and promised that he would look into the possibility very actively. Frankly, I doubt whether he will be able to do this within the next week or ten days, but I will try to keep on top of him to know what he is doing and to keep him interested. My own feeling is that if readings through Komer, Solbert and the State Department indicate that a Saudi request for Hawks would be favorably received, I should then send word to Anas Yassin immediately and let him make the effort to have the King initiate the request. I am sure that Anas is going to discuss the possibility without any further word from me.

It now appears that I will be going out to Iran for a few days, leaving this country on April 2nd. I recall that Tom Jones said that he would like to have me do something for him in Iran next time I was there. Would you let me know what I should do about this?

Best regards,



Kermit Roosevelt

cc: Colonel Clay Tice - Beverly Hills
Mr. Charles Ill - Washington, D. C.

KERMIT ROOSEVELT
 SECTION 11C
 PAGE(S) 162-166
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HERMIT ROOSEVELT & ASSOCIATES, INC.

1180 CONNECTICUT AVENUE
 WASHINGTON, D. C. 20006

FEDERAL 7-1446

April 15, 1965

General P. W. Timberlake,
 Northrop International,
 9744 Wilshire Boulevard,
 Beverly Hills, California

PERSONAL AND CONFIDENTIAL

Dear Pat:

Following is a report on my Teheran trip.

SS Immediately after my arrival, I got in touch with Church Haenke, who told me that things continued to go extremely well, that the Iranians are doing even better than the 82% in-commission rate reported for the F-5 - Church said it was around 85% - and that he thought the prospects for Page looked excellent. He told me that Tom Jones' letter had just arrived. All the mail from the United States recently has been extremely slow. Church had already discussed the letter with General Khatami and with Armistead of the American Embassy and, until my arrival, had not made up his mind how to deliver the letter. Armistead had expressed some concern lest the CO of USMAAG, if he learned of the letter through Iranian channel, might get the impression that Northrop was trying to take over MAAG functions. Church suggested that I might deliver the letter to the Shah myself with the oral comment that of course Northrop had no such intention. Church would then be able to tell Major General George S. Eckhardt that this had been done which would remove any possibility of his misunderstanding the letter. This procedure was followed with every apparent success.

Church was particularly anxious for any information I could obtain on Iranian intentions to decide now or shortly upon the acquisition of the 8th and 9th F-5 squadrons. Accordingly, I made a date to see General Khatami who is an old personal friend even though he once flew me over Soviet territory by mistake at a time when I was very high on the wanted list in Russia! Khatami couldn't have been more enthusiastic about the F-5 and proud of the record of his flyers and his maintenance people with the plane. He seemed very well informed about the possibilities that the USAF may purchase the plane and that the Pakistanis are going to ask for it instead of the F-104. He did not know of the Indian request for F-5's and threw up his hands in horror with the comment that the Indian Air Force has such a dog's breakfast mixture of planes that he does not see how they can fly or maintain any of them.

I asked him point blank about when he expected a decision to be reached on the 8th and 9th F-5 squadrons, with the comment that if delivery by January 1, 1970 was to be possible, there was not much time

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General P. W. Timberlake

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April 15, 1965

to be wasted. Khatami said that he did not expect any decision to be reached quickly. The Iranians felt they had time to consider the possibility of other equipment, perhaps an improved F-5; he remarked that he understood that improvements, particularly in engine power and speed, were being worked upon. He mentioned the F-111 also, but without any particular enthusiasm, indicating that he suspected that it might have its problems and that it certainly was going to be an extremely expensive plane. I had the definite impression that Khatami himself would not be making the decision, which could be expected to come from the Shah personally, but that he himself, though yielding to no one in enthusiasm for the F-5, thought it made perfectly good sense to put off a decision on the 8th and 9th squadrons for sometime at least, with an eye to considering more sophisticated equipment.

My meeting with Khatami was on April 6th. I met with the Shah for over two hours on the morning of April 7th. The Shah fully shares his Air Force's enthusiasm for the F-5 but was even more categorical than Khatami about his determination not to make any decision on future orders yet. He said surely there would be improved planes which, with their experience with the F-5, the Iranian Air Force would be competent to handle. He brushed aside the argument that he would have to stand in line for a long time in order to receive any other equipment. I told him quite frankly that I did not believe that he could be given the F-111 under MAP. He said he would have to see about that; that Iran was a big country and could not be defended even by nine squadrons of planes with limited range such as the F-5. I said that I thought that compared to other supersonic fighters, the F-5 had pretty good range, but he has the idea that the F-111 has much longer range. I do not know enough to argue about this.

I do feel that if the Iranians are to be persuaded to place their order for the 8th squadron by February of 1966, a substantial additional selling job will be required. I hope that Tom Jones will find it possible to visit Iran again sometime in the Fall.

So far as the letter is concerned, the Shah took a quick look at it and put it aside, not reading it in my presence. I do not know what his reaction will be but would not be surprised if we did not hear from him again on this subject until Tom's next visit. Khatami told me that it was a "nice" letter and that he was sure His Majesty would be happy to have it, but it was clear that Khatami did not expect any immediate response.

The Shah could not have been more cordial personally - he said that the next time I visited I should bring my wife and the two families should take a vacation together - and also he was most dispassionate about his

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General P. W. Timberlake

- 3 -

April 15, 1965

relations with the United States. He has a very low opinion of Phillips Talbot and said coolly that fortunately Iran was sufficiently strong and able to stand on its own feet so that it need not worry about accidents in Iranian-American relations such as are caused by people like Talbot. I did not see him after his meeting with Rusk, but the Foreign Minister, who was present during the whole meeting, told me that the Shah was considerably encouraged by Rusk's much tougher attitude on Nasser.

The latest of a number of attempts on the Shah's life came two days later. It was extremely lucky that it was not successful. The soldier, a conscript not a member of the Palace Guard but assigned to duty outside the Palace grounds, walked into the Palace grounds with his submachine gun and stationed himself outside one of the three doors by which the Shah can enter his office in the Marble Palace. Fortunately, the Shah chose to enter by a different door. Once the soldier realized that HIM had arrived, he entered the building. Two uniformed guards armed with rifles tried to stop him but when he started shooting, they fled. Once inside the building, he was engaged by officers of the guard in civilian dress armed with pistols. Two of these were killed and others wounded before they killed him. The Shah, who locked his office door as soon as the shooting began, took the whole matter with his usual calmness, and there was very little public reaction since the whole episode was played down as far as possible. However, the attempt, and the word of its near success, that leaked to well-connected Iranians, caused, in ruling circles, an emotion verging on terror. Several Senators - the Senate was in session at the moment of the assassination attempt - told me that they are sure they would have all been murdered if the attempt had succeeded. The whole episode reemphasized the fact that Iranian stability rests on the life of one man and that there are terrorist organizations in the country determined to kill him.

Best regards,

Kin

Kermit Roosevelt

cc: Colonel Clay Tice - Northrop International

HERMIT ROOSEVELT & ASSOCIATES, INC.

1120 CONNECTICUT AVENUE

WASHINGTON, D. C. 20036

FEDERAL 7-1446

April 15, 1965

General P. W. Timberlake,
Northrop International,
9744 Wilshire Boulevard,
Beverly Hills, California

PERSONAL AND CONFIDENTIAL

Dear Pat:

I had a good long session with Prince Mohammad yesterday. In fact, we spent most of the day together and I am trying to arrange for him to see Peter Solbert either this afternoon or some time tomorrow. Mohammad says that the F-104 is definitely out because of the bribery employed by Lockheed. Apparently he and Anas Yassin were able to give the King the names of officers bribed and the amounts and, rightly or wrongly, he is convinced that this finished any chance that the F-104 might have had.

He said that the decision on the plane and the rest of the package will be made by the King and the Finance Minister only. Prince Sultan is "too gullible."

Mohammad stresses the necessity of the submission of a complete package and is very pleased to hear that McNamara has written offering exactly that. He does emphasize that the British and the French are offering very real and dangerous competition. His father would like to conclude a deal with the Americans but both the British and the French are offering extremely attractive deals in terms of cost and in terms of speed of delivery. The American offer must be competitive with these. I gather that the British offer is considered to be even better than the French.

Mohammad wants to meet with Solbert to find out about costs and delivery time, particularly with regard to the Hawks. He says, "We need missiles not tomorrow but yesterday."

I have explained this all to Solbert, who is anxious to see that the transaction does go to the United States and not to the British or the French, but who is also impatient at the multiplicity of channels, some of them rather informal, through which this business is being conducted. He does not want to say anything to any Saudi representative here which might confuse the work being done by American representatives in Saudi Arabia. He feels that they have all the requisite information and they are the proper people to transmit it. However, he admits that they may not have all the information on the availability of the Hawk and also that Mohammad as a representative of the King cannot be ignored.

General P. W. Timberlake

- 2 -

April 15, 1965

Accordingly, he has agreed to meet with him and do his best to satisfy him. He has promised to telephone me shortly and I trust that he will do so! I do not think it would be wise for me to push him any further.

You will be aware of the reports that the United States is now preparing to consider selling arms directly not only to the Israelis, but to Jordan, Lebanon and Iraq as well as Saudi Arabia. I feel that this emphasizes the importance of having a first-class consultant on the scene in the Arab world. As I have told you, Samyr Souki is extremely well connected in all these countries with exception of Iraq, and frankly I do not think that the prospects of sales to Iraq are very promising. He is also extremely well connected in Libya and in the other North African countries. I do feel that it would be wise for us to bring Souki aboard. He will be in this country on other business around the first of June. I would strongly recommend that he and I come out to Beverly Hills at that time - say the 3rd or the 4th of June - to agree upon a program. Clay Tice knows Souki and you may wish to consult him about this as well. I would appreciate being advised at your earliest convenience so that I may alert Souki to this plan.

Best regards,



Kermit Roosevelt

CC: Colonel Clay Tice - Northrop International
Mr. Charles Ill - Page Communications Engineers, Inc.

11 May 1965

Mr. Kermit Roosevelt
Kermit Roosevelt Associates, Inc.
1120 Connecticut Avenue, N. W.
Washington, D. C. 20036

Dear Kim:

I expected a phone call from you yesterday so I did not get off the memorandum on South America for your use in case it is necessary for you to cover the working level in the State Department.

Attached you will find a memorandum covering Northrop's activities with the objective of obtaining permission to sell and export our aircraft to South America.

Since the development of the N-156, the forerunner of the F-5, we have had inquiries from practically every nation in South America who were either capable of paying for aircraft or were the recipients of military aid. These nations wished to modernize their Air Forces as the aircraft they had in inventory were obsolete and expensive to maintain.

The present effort to persuade the State Department to change its policy is triggered by two specific cases: that of Venezuela and that of Argentina.

In Venezuela we have evidence that Hawker of the Hawker-Siddeley Group of England has offered the Venezuelan Government 15 Hawker Hunters for \$13.5 million. The British Embassy in Caracas, lending full support to this sale, has stationed a Commercial Attache Specialist named Raymond Smith at the Embassy. A letter to Mr. Daniel L. Goldy on the subject of Venezuela is attached.

Mr. Kermit Roosevelt
11 May 1965
Page Two

With regard to Argentina, we are aware that the American Embassy in Buenos Aires has knowledge of the fact that the French have made a proposal to the Argentine Government. Twenty four Mirage III aircraft have been offered for \$40 million to be financed by the Bank of France with a nominal down payment of 5% and 12 years to pay off the balance.

The Argentine Air Force has not rejected this proposal but has asked the French to modify the proposal to provide for certain fabrication and assembly of the aircraft at Cordoba. Certain high Argentine officials have been invited to the Paris Air Show by the French Government and since the English Government has also proposed aircraft, the group of Argentine officers who visit France will also visit England. A letter to James Dunlap outlines Northrop activity with regard to Argentina. At the present time, we are not in contact with Argentine representatives.

Other Latin American nations have threatened to buy European if American products were not made available to them, however, the two examples stated above are most imminent.

Sincerely,

Patrick W. Timberlake
Lt. General, USAF (Ret.)

PWT:bjb
Attach.

in reply refer to:

NORTHROP CORPORATION

to: Memorandum for the Record

subject: South American Activities of the
Northrop Corporation

copies: Thomas V. Jones

inter-office memorandum
Northrop International

from: Patrick W. Timberlake

date: 11 May 1965

ref:

General:

As the result of an unsolicited invitation from the Chilean Government to visit Santiago, the Northrop party visited General O'Meara, Commander-in-Chief, Caribbean Command, in the Canal Zone in January 1962. When General O'Meara told Northrop that it was contrary to policy to permit the export of our T-38 trainer to Latin America, the party returned to the United States. This policy that the proposed sale of the T-38 would not be consistent with U. S. foreign policy was confirmed by Assistant Secretary Martin and Mr. R. N. Margrave, Director, Office of Munitions Control.

Since that time, numerous requests have been received from South American countries for the Northrop aircraft. The frequency and seriousness of the requests increased markedly at the time the F-5 was selected for the Military Aid Program.

Armed with the most recent request for a quotation from the Venezuelan Embassy, a series of visits were made during January 1965 which pretty well summarizes the position of the United States Government at the present moment:

- (1) On Wednesday, 13 January 1965, General Timberlake and Paul Fonda met with Mr. Alvin Friedman, Deputy Assistant Secretary ISA (Regional Affairs) to discuss the letter Northrop received from the Air Attache of Venezuela, dated 30 December 1964, requesting specific quotations on delivery and financing for the procurement of fifteen F-5 aircraft. Also attending this meeting were Mr. Frank Fede, ISA/ILN and Colonel R. J. Hill, USA, office of Western Hemisphere Affairs, ISA. Mr. Friedman was most emphatic in that his position was definitely against any such purchases by any Latin American country and that if

in reply refer to.

NORTHROP CORPORATION

to: **Memorandum for the Record**
 subject: **South American Activities of the
 Northrop Corporation**
 copies:

inter-office memorandum
Northrop International
 from: **Patrick W. Timberlake**
 date: **11 May 1965**
 ref:

-2-

Northrop made application for an export license for any such sale, that he would make his position clear to Assistant Secretary of Defense, ISA, the Hon. John T. McNaughton, who in turn reports to Secretary McNamara. He did indicate that possibly by 1970 after the Alliance for Progress Program to build up the economic and educational status of these countries had progressed, that the U. S. policy might be relaxed somewhat.

Mr. Friedman said that if Northrop was interested in working up a cost analysis study of M & O costs of aircraft in the inventories of certain Latin American Air Forces, in comparison to actual procurement costs, plus M & O of the F-5 over a number of years, that he would be most interested in seeing such a study; and that if such study looked favorable toward the F-5 that it would certainly merit strong consideration.

- (2) On Wednesday afternoon, 13 January 1965, a meeting was held with Mr. Peter Solbert, Deputy Assistant Secretary, ISA, to apprise him of our discussions with Mr. Friedman earlier in the day and he generally concurred with what Mr. Friedman had said, however, he was a bit optimistic on the possibility of a change in U. S. policies.
- (3) On Friday morning 15 January 1965, a meeting was held with Mr. Robert W. Adams, Deputy Assistant Secretary of State for Western Hemisphere Affairs, at his office, to pursue this matter further. Some time ago General Timberlake had met with Mr. Adams on our South American problem and at that time he advised that he

in reply refer to.

NORTHROP CORPORATION

to: Memorandum for the Record

subject: South American Activities of the
Northrop Corporation

copies:

Inter-office memorandum
Northrop International

from: Patrick W. Timberlake

date: 11 May 1965

ref:

-3-

would check this matter out with several offices in State to see if there was any indication that U. S. policies may be relaxed to allow the sale of the F-5 to certain countries capable of paying for such purchases. At this meeting, Mr. Adams did not give us any hope that such sales would be authorized in the foreseeable future. He did say, that he would advise us if any breakthroughs appeared imminent at some future date.

- (4) Northrop personnel met with Major General Joe Kingsley of the Joint Chiefs of Staff regarding JCS policy on South America. Upon a statement that an intelligence service in Brazil reported that Mr. Friedman of ISA and General Kingsley of JCS had stated that the F-5 would not be released to Latin American countries until after the 1970 period, General Kingsley asked for a copy of this intelligence report and indicated that the report was very close to the facts.

The situation was also discussed with Mr. Daniel L. Goldy who has been appointed National Export Expansion Coordinator by the President. Mr. Goldy explained that it was very difficult for him to get into this matter as long as there was unanimity between State and Defense, however, if there was evidence, which is now well known within Government channels, that procurement from a European nation was imminent, he would like the matter brought to his attention.

Venezuela

A copy of a cable is attached which was received from the General Electric representative in Caracas, but should not be shown to State Department

in reply refer to

NORTHROP CORPORATION

inter-office memorandum
Northrop International
from: Patrick W. Timberlaketo: Memorandum for the Record
subject: South American Activities of the
Northrop Corporation
copies:

date: 11 May 1965

ref:

-4-

personnel. We understand that the U. S. Ambassador Bernbaum has made a strong case for the F-5 export approval to the State Department.

General Breitwieser and General Porter, Commander-in-Chief, Southern Command (Caribbean) visited Caracas just recently to discuss this matter with Colonel Milani, Chief of the Venezuelan Air Force and was openly threatened with a European buy unless the United States permitted the purchase of the F-5.

Argentina

We have very nearly the same situation in Argentina except that the proposal there has been made by the French to supply 24 Mirage III aircraft for \$40 million. This price includes spare parts and ground handling equipment with a minimal down payment of 5% with 12 years to pay out. The State Department is aware of this situation.

I understand that the Argentine Ambassador in Washington has written a letter asking for permission to discuss aircraft programs with the Northrop Corporation. The Ambassador's letter definitely stated that these conversations would not be considered a commitment on either the part of the Argentine Government or the Northrop Corporation, which inferred that if the United States granted this permission to talk, it did not necessarily mean that an export license would be forthcoming. On April 8th this letter had not been answered.

Brazil, Chile and Peru

Numerous inquiries have been received from Brazil, Chile and Peru who have the potential for a direct procurement of F-5 aircraft. Any policy affecting Argentina and Venezuela would also affect these three countries.

Patrick W. Timberlake

PWT:bjb
Attach.

NWC

COPY

5 May 1965

TO: P. W. Timberlake

Mr. Helfenstein of G. E. called from his office in Lynn, Massachusetts, and inasmuch as we had not received his letter as yet, his secretary dictated the following:

"Re your letter 1/4

"Hawker has submitted letter proposal to Venezuelan Defense Minister offering supply 15 Hunter fighters total value approximately Bolivares 60 million/4.5 per U. S. dollar/ U. K. Embassy Caracas lending full support this sale have stationed commercial attache specialist in aircraft business, Raymond Smith at Embassy. Smith was instrumental U. K. securing Canberra Provost and recent 6 Avro/748/ commercial propjet orders for British. Venezuela ready and financially able purchase quantity 15 F-5 aircraft subject of State export approval. Hawker second choice based Venezuelans experience and existing tooling and equipment support aircraft of U. K. manufacture."

"French Mirage III in third place. Since Venezuelans not inclined tool up to support third country aircraft. Colonel Henry Choate, Chief USAFM Caracas has submitted strong recommendation to U. S. Ambassador Bernbaum encourage state approval F-5 export license. I discussed matter fully with Choate 4/30."

"He had suggested timing right for GE/Northrop apply pressure in State Department. Attempt influence approval export recommendation especially in view imminent loss of business to U.K. Choate optimistic based fact State has not secured immediate disapproval Northrop license request. Ball definitely your court. Choate traveling U. S. 30 May wish locate and discuss in addition your State contacts."

"Signed Casey"

bjb

18 January 1965.

Mr. Daniel L. Goldy
 National Export Expansion
 Coordinator
 U. S. Department of Commerce
 Room 5051
 14th & Constitution Ave., N. W.
 Washington 25, D. C.

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Dear Mr. Goldy:

As the result of our conversation in your office on 15 January, I am furnishing the following information to serve as an aide memoire in case you wished to take any action in this matter.

The broad subject discussed was the policy concerning the export of the Northrop F-5 aircraft to South America. The specific case cited as an example was the continuing requests on the part of the Venezuelan Government for procurement information on the Northrop F-5 family of aircraft and the statement on their part of their intention to buy 15 of such aircraft.

The salient facts concerning the Venezuelan case are as follows:

- (a) On 23 May 1964 the Embassy of Venezuela advised our Washington office that it had received an inquiry regarding Northrop aircraft. This request was answered informally and orally.
- (b) On 5 November 1964 the Commander-in-Chief of the Venezuelan Air Force visited Northrop and requested a price proposal for twelve (12) F-5As and three (3) F-5Bs.

Mr. Daniel L. Goldy
 Washington 25, D. C.
 18 January 1965
 Page 2.

-
- (c) On 11 December 1964 Northrop provided a planning purpose quotation with a further statement that until such time as the U.S. Government provided for the release of production allocation we were unable to state the availability of such aircraft. This quote indicated a flyaway cost of approximately \$11 million with a program cost including spares and ground equipment including the above, totaling approximately \$14.5 million.
 - (d) On 30 December 1964 the Embassy of Venezuela addressed another letter to the Northrop Corporation asking for financial and delivery information, stating that the Venezuelan Air Force was contemplating the acquisition of the above mentioned aircraft. (A copy of this letter is attached.)
 - (e) It is obvious that no realistic credit and financial information could be furnished until the permission to eventually export the aircraft to Venezuela could be obtained. Visits were made to DOD/ISA and the State Department Office of the Assistant Secretary for Latin American Affairs on the 13th and 15th of January. We were informed that it would be contrary to U.S. policy to permit the export of F-5 aircraft to Venezuela in the foreseeable future.
 - (f) As explained, it is difficult for the Northrop Corporation to know when the sale and delivery

Mr. Daniel L. Goldy
Washington 25, D. C.
18 January 1965
Page 3.

of aircraft by European contractors, of equal or superior performance, is imminent. See attached notes on present types in inventory and on order by Venezuela.

Your courtesy and consideration in seeing Mr. Fonda and myself last Friday is appreciated.

Very truly yours,

Patrick W. Timberlake
Lt. General, USAF (Retired)

PWT:bjb

Attach. GOMER DEC 30, 1964

VENEZUELA FIGURES - 1-11-65

Mr. Roth approved per Louis Cayman 1-11-65

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18 December 1964

Mr. James D. Dunlap
Deputy to the Assistant Secretary of
International Logistics Negotiations
Department of Defense (ISA)
The Pentagon
Washington, D. C.

Dear Jim:

This letter will confirm our telephone conversation this afternoon concerning the allegation that Northrop had been actively selling the F-5 in Argentina. Following our conversation, I made a very careful check of our files and queried all of my people in the International Division who could have conceivably been in contact with Argentina. I am happy to be able to reaffirm my statement to you that Northrop has not undertaken any action whatsoever with respect to F-5, or even T-33 for that matter, sales in Argentina. As a matter of fact, we have been so circumspect in this matter, that I find we have been remiss in not even answering official Argentine government correspondence which certainly could be a source of embarrassment to Northrop.

In the first place, we have had no official correspondence with anyone in Argentina concerning either the T-33 or F-5 for the past 2 1/2 years (this is as far as I have gone back in the files). Our only contact with the Argentinians during the past few years has been with the Argentine Air Attache in Washington last fall. Attached are copies of two letters from Colonel Juan Jose Tasso, Head of the Argentine Aeronautical Military Mission in New York City dated August 27 and September 29 respectively.

On September 9, Gwynn Robinson and Paul Fonda met with the Argentine Air Attache, General Canacciolo, and Colonel Tasso in the General's office. The purpose of this visit was to explain to both of these gentlemen that Northrop was unable to reply to

Handwritten:
12-18-64
JDC

Mr. James D. Dunlap

18 December 1964

Page - 2 -

their correspondence until we had official USA governmental authorization. The Argentines requested that Northrop either appoint a representative in Argentina or send someone down to visit their plant in Cordoba to answer pressing questions concerning the feasibility of manufacturing the F-5. Neither of the requested actions has been taken by Northrop.

The Argentine officers stated that their country had to make a decision with respect to a new manufacturing program in their Cordoba plant prior to the end of 1964 and that the F-5 was the logical first choice. In the event that the United States would not allow consideration of the F-5, Argentina undoubtedly would turn to Europe for its next manufacturing program.

Since the above mentioned early September meeting, we have cabled Colonel Tasco on 22 September pursuant to the attached copy. We have also written General Carnecciolo on 12 October and a copy of this letter is also attached. The meeting referenced to in this letter between Gwynn Robinson and the General was on the occasion of the visit of 50 foreign air attaches to California under the sponsorship of AIA.

Colonel Tasco and General Carnecciolo have telephoned us numerous times during the past few months requesting that we answer their letters or send someone to Argentina as an interim measure. I am embarrassed to say that we have done neither and at this point, I certainly would not blame Argentina for being disgusted and unhappy with Northrop's evident lack of politeness, much less good business procedure. I wonder how many other U. S. contractors in a similar position would be able to resist the temptation to do at least a little selling. From the above, you can readily see why I was quite indignant over the untrue accusations leveled against us.

Mr. James D. Dunlap

13 December 1964

Page - 3 -

In any case, Jim, I want to take this opportunity to wish you and your family a very Merry Christmas and Happy New Year.

With sincerest regards,

Patrick W. Timberlake
Lt. General, USAF (Ret.)

HERMIT ROOSEVELT & ASSOCIATES, INC.

1120 CONNECTICUT AVENUE
WASHINGTON, D. C. 20005

FEDERAL 7-1440

October 18, 1965

General Patrick W. Timberlake,
Vice President,
Northrop International,
9744 Wilshire Boulevard,
Beverly Hills, California

PERSONAL AND CONFIDENTIAL

Dear Pat:

The following is my report on conversations in Beirut and Jidda, October 5th through 11th.

Before going to Saudi Arabia I was able to review the situation in detail with Samyr Souki and to have talks as well with Ambassador Anas Yassin and Dr. Omar Azzam. Unfortunately Ghazi Shaker was in England or Germany, contrary to his announced plans, during the whole of my visit. I do not know his present whereabouts.

From Souki and from the reports forwarded to me by Clay Tice, I was able to fill myself in completely on the activities of Carlos Dodd and the visits of Tice and Souki to Saudi Arabia. I could not be terribly impressed by the activity or effectiveness of our Saudi Arab team supposedly under the leadership of Ghazi Shaker: he himself was in Europe for an unspecified duration; Prince Mohannad was in the United States and his return date was also uncertain; Anas Yassin when I spoke to him was on his way to Egypt and I believe is presently more interested in settling some problems connected with his Father's estate than in anything else; (Azzam Pasha later told me that Anas had asked him to intercede with the King so that Anas might have a leave of absence for this purpose); and Omar Azzam, who was never proposed as an active member of the team at this time but was designated to us as a member of it, has a full time job in Beirut though he is planning to spend a couple of weeks in Saudi Arabia beginning at approximately this date. Samyr Souki has been very active and I believe effective, and the introduction of Kamal Adham, to be discussed later, may supply much needed additional strength. I note that Souki has indicated in one or two of his reports that we can expect help from Ambassador Azzam Pasha (Omar's father) who is indeed very close to the King and sees him every evening when he is in Saudi Arabia. However, I think it is quite unrealistic to believe that Azzam will try to influence the King in any except the most general terms and then probably only if the King should request his views - which is not very likely. Azzam Pasha frankly makes no effort to understand the complexity of modern weapons; I believe that all we could hope for from

General Patrick W. Timberlake

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October 18, 1965

from him would be that he might urge the King not to buy any supersonic fighters at this time.

It was clear that the cable I sent on the 19th of August (copy attached) to Prince Mohammad, the Chief of Protocol and Ghazi Shaker, created a strong reaction, initially one of shock that I should send such a message in an open cable. However, Souki, who had been here in Washington when it was decided that I should send the cable and had himself suggested that we add the Chief of Protocol to the list of recipients, was able to make good use of it and to explain to the recipients why I felt it necessary to send the cable in the manner I did. The cable has been the subject of discussion between various groups to whom it was not addressed; Kamal Adhoni has mentioned it to the CIA representative in Jidda and I understand that the State Department officials in Washington have also referred to it. Its effectiveness has been increased by subsequent developments in Washington which have proven that my message was in no sense unduly alarmist. I understand that the Chief of Protocol gave the substance of the message to the King although neither the King nor the Chief of Protocol referred to the cable during my visit.

On October 9th I had an extremely friendly and relaxed two hour conversation with King Faisal. I did not even raise the subject of the defense program during the first hour but was able to introduce the problem quite naturally during the second half of our conversation when I was describing the Shah's reaction to the recent visit of King Hussein to Iran. (You will remember that Hussein told the Shah that Jordan and Saudi Arabia were each to receive two squadrons of Mirage 3-E's.) King Faisal confirmed this information as regards Jordan but denied it so far as Saudi Arabia was concerned. I took this occasion to say to the King that, as he has known for some time, I have been a general adviser to the Northrop Corporation but that I wanted him to understand clearly that I would not personally benefit from any Northrop sales to his country nor would I advise either him or Northrop in any fashion contrary to my understanding of the best interests of Saudi Arabia and particularly of Saudi Arab/American relations. I reminded the King that at his request I had urged Secretary MacNamara to recommend specific American products rather than leaving the choice up to the Saudi Arab Government without the benefit of American advice. I reminded the King further that after MacNamara had written to Prince Sultan in accordance with the King's request, I was subsequently asked ~~to assist~~ in persuading the Department of Defense to send an evaluation team to discuss the Secretary's recommendations with Saudi Defense officials. I said that I was surprised and concerned at the decision of the Saudi Ministry of Defense to go against Secretary MacNamara's recommendations and inquired of the King whether, in view of the apparent relaxation of tensions between Saudi Arabia and the United Arab Republic, he might feel less urgency in the procurement of highly expensive fighter aircraft which his Air Force would not be able to fly and maintain for years, if ever.

General Patrick W. Timberlake

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October 18, 1965

The King replied that tensions had indeed diminished but it was none the less the conclusion of his Government that it must have defense equipment as good as or better than that possessed by Saudi Arabia's neighbors. Accordingly he has instructed Prince Sultan to pursue a rounded program, and this is what the Defense Minister is doing by signing up for a complete package. He said that he understood that Secretary MacNamara's team had recommended the F-104-G.

I said that I hoped His Majesty understood exactly the circumstances in which this recommendation was made. The team had been told flatly that the F-5, which was and remains the strong recommendation of the United States Department of Defense, had been excluded from consideration by Prince Sultan. The team was asked to recommend one of three planes, namely the British Lightning, the French Mirage 3 and the American F-104-G. Of these three the Defense Department team recommended the American plane but Colonel Yeager, leader of the team, specifically asked that it be made a matter of record that the team warned against the impracticability and vulnerability of the product and specified that the Department of Defense should not be blamed if some years from now the Saudi Arab Air Force finds itself with a highly expensive obsolescent plane on its hands which it is unable to maintain or operate. I referred in some detail to the difficulties of maintaining and operating the F-104-G as demonstrated by the experience of highly skilled air forces and I referred particularly to the high attrition rate both for the machine and for the pilots.

The King said that he was no expert in these matters and that he simply accepted the advice of his Ministry of Defense which in turn, he understood, had sought advice from the best qualified sources. He asked what I would do. I replied that I was no expert either and that I would do as he had done with the difference that as an American I would accept what I felt certain was the sincere, competent, well considered and well intended advice of the American Secretary of Defense. I reiterated my conviction that the Secretary made his recommendation after the most careful study of Saudi Arab defense requirements and in full recognition of the equipment possessed by neighboring States.

The King repeated that his Minister of Defense had been instructed to proceed on a well rounded program which must include radar and ground control and communications as well as training before the procurement of highly priced, very complicated airplanes. I commented that this was the only sensible way to proceed and said that he was at least lucky in not being a one-sided expert, like one of his neighbors who is personally an expert flyer and who picked the best plane for his country's defense (incidentally not the F-104-G but the F-5), and who now had a squadron which his own Air Force could fly and maintain, but who was totally lacking in ground environment and who was therefore as good as blind.

General Patrick W. Timberlake

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October 18, 1965

The King made one further comment, expressing the hope that he would get generous arrangements on financing. My only reply was that it was indeed a very expensive program which his Ministry had chosen. After this subject we reverted to a general discussion of regional problems.

Later that same date I met with Talcott Seelye who appears to be far better inclined in Jidda than he was under the command of Phillips Talbot in Washington. Seelye claims to have been in very close touch with the DOD visiting team and said it did an excellent job in trying to sell Secretary MacNamara's package, but it was badly outgunned on the F-5. He showed a good over-all grasp of developments, although he is mixed up on chronologies and details and refuses absolutely to engage in any talk of bribery or to admit that it was a factor in the Saudi decision. Seelye said he believed Page had an excellent chance on the ground environment part of the package. He doubts if Sultan will visit the United States until the Spring at the earliest, and he does not believe that the Saudi Government will soon be able to consummate the F-104-G deal. Although he agrees it would be the best solution, he does not think that the Saudis, now that their Air Force has been promised a Mach-2 airplane, could be satisfied for anything more than a brief period with a ground environment-Hawk-T-38 combination.

On October 10th I met with Kamal Adham who, as I understand it, already has a piece of the Lightning deal, the Mirage deal and the Lockheed deal and is trying to complete the square by an arrangement with Northrop-Page. He says that he has recommended to Sultan that, since the Lockheed plane has been selected, Page should get the ground environment portion of the package.

Kamal Bey is very much on the defensive about Sultan's reasons for choosing the F-104-G. He states that the Prince was persuaded to this choice by King Hussein of Jordan and the Pakistanis. He was told by various sources, including the Saudi Arab Attache in Washington, that the U. S. Government did not want to give the F-104-G to the Saudis for fear that this would strengthen the arguments of King Hussein that he should be allowed to purchase the plane which, in turn, would lead to Israeli insistence upon being allowed to purchase it as well. In order to avoid an escalation of the arms race in the Middle East, the United States preferred to give a second best plane to the Saudis if the Saudis could be persuaded to take it. Kamal Bey believes that the F-5 has definitely been eliminated from consideration for the foreseeable future although he does not believe that the transaction for the F-104-G will be consummated in the near future and does not eliminate the possibility

General Patrick W. Timberlake

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October 18, 1965

that it may never be consummated at all. He remarked that if Prince Sultan was to be criticized on the decision at all, it should be on the basis that he has chosen a very expensive plane which his people will not be able to operate for several years, by which time they should really be purchasing more modern planes.

Kamal Bey thinks that twin engine trainers might have a real appeal to the Defense Ministry and believes that this possibility and the wide-open situation so far as the ground environment package is concerned offer Northrop-Page very good opportunities. He opposes the idea of Page sending a team out at this time, but suggests that one individual well qualified in the whole field should come to Saudi Arabia as soon as possible to work with Kamal Adham. He says he can introduce him in the right places and give him the right guidance and he thinks such a visit would be most rewarding. Kamal Bey himself was planning to go to Beirut on about the 14th of October where he would confer with Samyr Souki. I could not get him to take much interest in ORDAP which he apparently regards as too sophisticated for the Saudi Ministry of Defense.

To support his belief that consummation of the Lockheed agreement is not imminent, Kamal Bey explained that Prince Sultan cannot leave Saudi Arabia until after the Hareb conference on Yemen which begins November 23rd. After that he plans to go to Europe for a month's vacation so that he could not expect to visit the United States before January at the earliest.

To summarize and report upon the various questions I was asked to resolve: on the airplane, while most people deny that the final decision has been made by the King, and the King himself was non-committal on this point, I would judge that in fact the decision has been made, but the King does not want Prince Sultan to go ahead quickly on the basis of it. Substitution of T-38 trainers at least as an initial step would appear to be in the realm of possibility. However, to get the decision formally changed would appear to be not only difficult but extremely embarrassing for the Saudi Arab Government. On the ground environment, no decisions appear to have been formalized and it does appear to be the intention of the King that this should come first. On ORDAP, I agree with Kamal Adham that it is too early to interest the Saudi Government in such a program. Finally; on the question of a team visit, once again I agree with Kamal Adham that it should not be a team but that one highly qualified individual should go to Saudi Arabia very soon.

The role of Kamal Adham needs to be formalized. My own feeling is that without him we are going to be weakly represented. I think Prince Mohammad would be very willing to take as strong a position as he can, but I think it would be unwise for him to advocate too strongly one

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October 18, 1965

American corporation as opposed to another. It remains to be seen what mileage he can get out of the Washington reaction to Lockheed's tactics. Mohammad will be back in Saudi Arabia by about the 27th of October. If, for instance, Joe Waldschmitt is going to Saudi Arabia at about that time, we will have to work out an agreement of some sort, even if an unacknowledged one, between Mohammad and his uncle Kamal Adham for at the present time they are, in Mohammad's eyes at least, at daggers drawn. I am going up to see Mohammad tomorrow and will prepare him for the Ambassador's dinner this coming Friday which could possibly be a most important occasion.

Best regards,



Kermit Roosevelt

Att. (1)

cc: Mr. J. A. Waldschmitt - Page - Washington
Mr. Jack Bradley - Northrop - Washington

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October 15, 1965

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General Patrick W. Timberlake,
Vice President,
Northrop International,
9744 Wilshire Boulevard,
Beverly Hills, California

Dear Pat:

Below is a report on my visit (September 29th-October 4th) to Teheran; a similar report on Saudi Arabia will follow.

On arrival I telephoned Church Haenke and we met to map out a program. It turned out that General Khatemi was in Europe and would not be back before my departure. We agreed therefore that I should discuss Tom Jones' visit, and the reason for its postponement, with the Shah, covering in general terms the Northrop/Page proposals for Iran (over and above the F-5), advising HIM of Glen Lord's visit and saying that I planned to give the Prime Minister a similar briefing with the recommendation that the Prime Minister meet with Glen Lord and himself arrange meetings with other appropriate officials of the Government. Church and I agreed that there would be no point in my seeing, for instance, the Minister for PTT, since I would not be able to discuss projects in sufficient depth to make the talk worth his while.

In addition to the Shah and the Prime Minister, I would review the situation with Ambassador Meyer, and Church and I would also meet with General Locke and Allen Conway, a member of our Embassy staff with special interests and connections which could be helpful. We would also discuss consultant possibilities with them and with Seifullah Rashidian.

The meetings went much as planned. I found Ambassador Meyer very well disposed, expressing high regard for Church Haenke; General Locke is to all intents and purposes a member of the family. Due to the State visit of the President of Austria, I did not see the Shah until the evening of October 2nd, when we had a long, relaxed and most satisfactory conversation. He was much concerned with the Pakistan-India situation - he is sending all the arms and equipment he can to Pakistan - and with the recent visit from King Hussein of Jordan.

This led naturally to talk of airplanes. King Hussein has told the Shah that as part of the build-up of combined Arab military power,

General Patrick W. Timberlake - 2 -

October 15, 1965

Jordan and Saudi Arabia would each be getting two squadrons of Mirage 3-E's. (At least as far as Saudi Arabia is concerned, this does not appear to be true.) The Shah remarked that he could not hope to maintain the morale of his armed forces unless they had equipment at least as good as their neighbors. However, a bit later, he did say that if he could be assured of F-5-X's, he would postpone moving to more advanced planes. He expressed the hope that by the time Tom Jones should visit, it might be possible for him to be given such assurance.

I did not discuss the air force training and personnel management project in any detail in General Khatemi's absence, but did say that such a project was being developed with the General. The Shah was clearly interested in the various Page proposals mentioned to him, and asked me to convey to the Prime Minister his desire that the Prime Minister meet with Mr. Lord. He looks forward to seeing Tom Jones, and I suggest he be notified of Tom's plans, when they are definite, by Church through the Prime Minister.

The Prime Minister was most receptive, took notes on some of the Page projects as I described them briefly, expressed eagerness to see Glen Lord, and promised to make the appropriate appointments for him. (If there is ever any difficulty in getting through the Prime Minister's secretariat to him, Seifullah Rashidian is a close friend who can always call directly.)

Allen Conway is specifically interested in providing the Iranian Air Force with a training program in basic electronics to begin with. He also has an interest in SAVAK, the security organization, which not only needs training but has communications responsibilities which cut across all Government departments.

So far as agents are concerned, I would recommend that nothing be done about Shafiq until General Khatemi's specific suggestion is obtained. If the General is anything less than 100% confident, I would clear it with the Shah. Assuming that Shafiq is to handle the aviation side of things, I believe the team of Seifullah Rashidian and his brother Asadollah would be tremendously valuable as consultants on the remainder. They have excellent contacts from the top (Asadollah with the Shah, Seifullah with the Prime Minister) right on down through all departments of the government and business community.

Best regards,


Kermit Roosevelt

cc: Mr. J. A. Waldechmitt - Washington
Colonel Jack Bradley - Washington

KERMIT R. F. LEVELT
SECTION C
PAGE(S) 112, 132

3 September 1968

From:

Silva

I am dictating this so that it can get into your hands at the earliest moment. Naturally, some of the phrasology is not precisely what we would use in formulating a written message to the Shah, and probably not the language you would choose in conversation with him, but it can serve as a policy guideline plus some background for what you will tell him.

First of all, some over-all observations. This program has been approved by the U. S. Government at the highest policy level because of their concern about the highest policy considerations involving mutual security. I am asking Jim Holcombe to give you a paper we have prepared on the subject of mutual security considerations and the 530. This will give you the material which we presented to Paul Nitze and to others at his level. Really, it presents the fundamental reasons for supporting the program. Simply stated, it voices concern about the expanding Soviet threat implied in the Soviet re-equipping their various satellite countries around the world with advanced MIG-21's and other high performance aircraft.

The U. S. cannot ignore this, nor can it ignore the fact that nations friendly to us may not have any place to turn. Clearly, it is in the U. S. national interest to help these countries achieve maximum security consistent with their own economic potential.

Keeping these facts in mind, I think it is essential that we keep the 530 program at a high policy level in each of the countries that we are discussing. It is certainly at that level with the Shah -- he certainly dealt with the chief executive of the U.S. -- and in dealing with the President personally he actually raised the level one notch higher than we are at in our discussions in the U.S., which is all to the good.

So, in any discussions with the Shah it is important that they be kept on the basis of fundamental national objectives, rather than allow it to take the appearance of a sales plan, or to allow anything to obscure the fundamental objectives.

The first purpose of your visit to the Shah then is to simply inform him of the events that have transpired since his conversations with the President. Show him a copy (which will be attached) of the letter from Nitze to me. If you think it useful you can show him selected portions of the mutual security brochure and even leave it with him if he expresses such an interest.

Also, I have asked that Jim Holcombe provide you with a copy of a study of ours called "Market for the 530" and the reasoning behind each one of the groupings. You may show this to the Shah if in your judgment you should.

Because of the relationship of the German NKF program and the MRA 77 requirement study, I have asked Jim to provide you with other pieces

of paper which describes each of these programs -- the NKF, the MRA-75, as well as a simple description of our own 530 so that the differences between them can be well understood. This you will probably want to retain for yourself but if you want, you can provide it to him. It was intended to clarify the relationships between these projects for our top defense officials, and he may find it useful to him. When you read that paper I think you will see why there is some confusion about the German position.

To give you a little history, the 530 was conceived without thinking of Germany. It was really conceived around the countries presently using the F-5 in addition to others like Italy and some of the Mediterranean countries. It was only after Steinhoff became Chief of Staff that he realized that it was not realistic planning -- planning which put the use of the technology needed to provide military equipment into proper relationship with the budget available for such projects. It was that realization that caused him to suggest that I come over there and talk to him about this situation. It was at that time that I briefed him on the 530 and he immediately said, "Well; this is the kind of airplane we need."

There was then a period of several months wherein Steinhoff and Mr. Wahl, the top German technical man, completely agreed with the concept. In fact, they said this was the airplane they wanted.

BEST AVAILABLE COPY

We understand that at the present time Wahl still feels this way. Steinhoff feels this way about the airplane but for reasons I cannot quite understand, Steinhoff and his boss, Mr. Schroeder, feel it necessary to include other countries in a statement of the requirements for a new airplane as a means of gaining more political support for their own in Germany. At the same time, the German industry, especially the Southern Group, wanting to have a more advanced airplane which was equal to or better than anything the U. S. or the French could produce, started moving in the direction of a much more complex and expensive solution to the problem. This is where the situation now stands.

Incidentally, so we will not be confused, the MRA-75 is a requirements group and only that and several members of the consortium believe that the 530 is the best answer to the requirement. They do not consider at all that we are out of the MRA-75. Keep that uppermost in your mind. MRA-75 is not an airplane, but our fear is that this group is tending to push the requirements into such a complex set of specifications that the 530 won't be able to meet them without going astray. We will not permit this to happen since all of our work to date results in the P-530 as an airplane which can be produced to meet performance, schedules and cost.

The MRA-75 agreement simply says that the five countries will jointly try to develop a set of requirements for an operational aircraft. This agreement has been signed by the Defense Minister level of each country while the Chiefs of Staffs -- and I know this personally from discussing it with each of them -- still believe in the 530 concept and the need for a simpler, less expensive aircraft which will still provide high performance. The fact that it has been at a ministerial level tends to constrain them, since it is at the ministerial level that the industries and politicians in each country who are concerned about work to be performed in each country get into the act. For instance, Rolls Royce is fighting hard for the engine; the English aircraft industry is actually saying that if England is going to be in the program the aircraft industry of England must have the final say-so on the design, etc., etc. This is typical of the myraid of problems that always crop up when countries have decided ahead of time to get together on a stated set of requirements. It ends up in a debate which is not really about requirements but is tied to industry relationships, economic considerations, and so on, and the net result is usually failure as has happened in almost every other attempt at a multi-national statement of requirements to date. The Italians as recently as a week ago through General Panali have stated that they feel the program is going to fail. In fact, they didn't believe the MRA-75 project would succeed in the first place because they felt you could not get a group of nations to agree on a specific set of requirements.

without having as a result a completely confusing combination of diverse opinions and requirements.

The advantage of the 530 which has been recognized from the start by all of those who have supported it is that it is a clearly defined product -- one which each country can evaluate and consider and then decide whether or not it fits their requirements. By contrast, the MRA-75 is an attempt to arrive at a set of requirements and for each country to make a decision, knowing that the product will have to be a compromise, but without being able to know what the compromise will be.

The same thing is true in the design of transport aircraft. A company like Boeing, for example, may talk to as many as 20 or 30 airlines over a period of years. On the basis of these talks they can figure an airplane which these separate airlines can then look at and decide how well they like it. If these 20 or 30 airlines have to get together and try and find a compromise on their respective requirements and each were to argue for its respective design, you would probably get no airplane at all and the commercial airliners we have today would not have anything like the quality they represent.

The important point about the 530 is that it is a clear statement of a product. It is important that it not be changed. The fundamental reason that the U.S. Government backed us at this time was t

that the policy level people, military and otherwise, would have the opportunity of accepting or rejecting a product which they knew the U.S. Government could fully stand behind as meeting its stated performance, schedule and costs. Kim, this is the key, and I know His Majesty understands it. You can see then that the important thing in your discussion is that we must not let anything confuse this basic point.

With that background, let's talk specifically about Germany. I have reasons to believe that the Chancellor, who will be visiting the Shah on 9 September, is aware of the 530 project in some detail, not as an airplane but as a concept. One reason for this awareness is the letter which Paul Nitze sent to Minister Schroeder, a copy of which is enclosed.

Incidentally, this enclosure is really just for your information. I dictated it from memory after I had been shown this letter last Friday for the specific purpose of communicating to me exactly what the U.S. had communicated to the highest level in Germany.

As I understand it the Chancellor's main concern is that his Minister of Defense and the Chief of his Air Force are moving in the direction of a Germany-dominated Europe-only consortium which may not be in Germany's best long term interest from several points of view.

The Chancellor feels that Germany should not cut its technical research and development relationships with the U.S. He believes that relationships with U.S. knowledge and technology can be exceedingly important to Germany in the future. He feels that embracing the British by Schroeder and Steinhoff may not be in the long term German national interest. He also questions the ability of this group of countries to bring to fruition a worthwhile solution. I want to make it clear, Kim, that his reasoning is based on national policy consideration and not upon his detailed knowledge of the 530. In view of this and because we certainly do not want the 530 project to become embroiled in internal German politics, it is terribly important that we take advantage of this opportunity to have His Majesty mention to the Chancellor his concern about the equipment problems of the future and his feelings about Northrop and the 530 solution. It is important that he tell the Chancellor of his conversation with the President, stating that he felt that the U.S. -- in the interest of those countries that look to us for certain types of help or leadership in the military area -- that the U.S. should put some earnest money behind the Northrop 530 and should put their own support -- mainly professional air force support -- behind the project to insure that it will, if properly supported by our Allies financially and otherwise, will insure that the best U.S. technology will also stand behind the project. You can see that if His Majesty will tell this to the Chancellor it will indicate clearly that Nitzsche's letter to Northrop was not intended to set up a self-

U.S. venture, a venture that would compete with other countries, but quite the opposite. It will make clear that the U.S.'s intent was to put itself behind those countries that desire an aircraft to suit their requirements as distinguished from an aircraft that fills U.S. needs. In other words, the U.S. is placing itself at the disposal of its Allies and providing the practical means of doing it in terms of a product which is already defined. The U.S. has great concern that joint requirements have never worked in the past. The U.S. Department of Defense people have convinced themselves that the 530 does represent the best solution to the requirements of the various nations who are considering it. One more point about the Chancellor. He must contend, as I have said, with the views of his Defense Minister and Chief of Staff, and he has a hard time getting into the loop properly. But if His Majesty tells him that the initiative on it came from him (His Majesty) it will help the Chancellor keep his discussion at home on a policy level. The main purpose of His Majesty's stating this simply, not expecting an answer -- is to help establish the fact that the 530 project was viewed as of world-wide importance to those nations that have common objectives with respect to freedom. These latter words are the Shah's own words describing his interest in sticking with the U.S. -- because we share a common interest in freedom.

So you see, the important thing is not to sell the Chancellor at all but to communicate to him at this high policy level that the initiative has been taken by the Shah himself and that it was this that led the U.S. to support the 530. We want the Chancellor to be able to say that the 530 project does not represent a narrow sales effort on the part of a contractor who is trying to compete with German and British industry -- and you can be sure that this is the way it will be twisted in a competitive situation like this.

So, Kim, to summarize, the 530 appears to be the best hope for a program. All of the nations that can agree. We seem to have all of the ingredients. The question is how to catalyze it properly.

Use your own judgement, Kim. If the Shah decides to do nothing, we certainly understand and there is no problem. If he decides to do something, the mere mentioning of the project and his own position with respect to it would be the most important thing he could do.

About the worst thing that could happen would be for the Germans to decide that they want to get into the project without having faced internally the dissension within their own ranks. If we had a situation in which their policy level supported the project while the lower level were fighting it, it would cause confusion that would carry over into other countries that we will have to deal with.

I am leaving shortly to talk with General Panali for some advice. As a result of this I will probably talk to the Dutch and when I do it will be at the Chief of Staff of Air Force level and perhaps at the Government level. In any event, please tell His Majesty that I will keep him informed all the way.

The most important thing is to preserve the characteristics of this program which we, and I know the U.S. Government, intends to do.

Thomas V. Jones

Dear Minister Schroeder:

I wish to inform you that today I signed a letter to Mr. Tom Jones of Northrop Corporation stating that the U. S. Government would participate in the Northrop P-530 Multi-national Tactical Aircraft Program. This program is intended to provide an aircraft which can perform a variety of missions and will be the follow-on replacement for such aircraft as the current Northrop F-5.

As I briefly mentioned to you during our discussions of the past week, the U. S. is very much interested in the strategic and political aspects of a decision on future military aircraft for the European area, especially concerning the selection of multi-purpose as compared to single-purpose aircraft.

Further, we feel it of utmost importance that our countries consult with one another before final decisions are made in this area. Accordingly, I look forward to discussing this matter with you after your September meetings on the MRA-75.

Best personal regards.

Sincerely,

/s/ Paul H. Nitze
Deputy Secretary of Defense



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

AUG 23 1969

Mr. Thomas V. Jones, President
Northrop Corporation
P.O. Box 1525
Beverly Hills, California 90213

Dear Mr. Jones:

The Department of Defense has decided to participate in your proposed multi-national development of the P-530 tactical aircraft weapon system. This decision was based on the following factors:

1. By virtue of its extensive efforts to date and the investment of approximately \$12 million, the Northrop Corporation has a one-to-two-year lead in the ability to develop and produce an aircraft with the desired characteristics.
2. The need for such an aircraft is urgent and precludes the additional delay necessarily entailed in soliciting and evaluating competitive proposals.
3. There is no other existing U.S. aircraft which, by modification, could match the P-530 predicted performance, operating cost, and maintainability characteristics.

In view of the foregoing considerations, the Department of Defense will participate in this development in the amount of \$4 million provided that Northrop devises a P-530 development and production plan acceptable to the Department of Defense and that Northrop succeeds in gaining the agreement of at least two other countries with a minimum contribution from those countries of \$15 million for the first year's development effort. Northrop should make it explicitly clear to all participating countries that the Department of Defense cannot make any commitment to provide additional funds after Fiscal Year 1969.

Because of the urgent need for early availability of such an aircraft, and the multi-national character of the program, your company is expected to proceed in its discussions with these countries with a view toward determining at the earliest possible time, the character of their interest and the degree to which they desire to participate.

Sincerely,

Thomas V. Jones

~~NOTICE OF PRIVATE~~

16 August 1968

P-530 WORLD-WIDE REQUIREMENTS ESTIMATEP-530 Type Aircraft Potential (Free World 1975-1985)

	<u>Number Countries</u>	<u>Number Squadrons</u>	<u>Number Aircraft</u>	<u>Value (Dollars)</u>
Group I	7	85	1,700	\$ 3,400 M
Group II	6	38	760	1,520
Group III	<u>18</u>	<u>47</u>	<u>940</u>	<u>1,880</u>
	31	170	3,400	\$ 6,800 M

Group I includes 7 major countries which will probably participate in substantial production in country.

Group II includes 6 other major countries that will probably require some participation in production or assembly.

Group III includes 18 additional countries which will have a requirement but no capability for production.

Assumptions

1. That 20 aircraft per squadron is a good planning figure. This could include advanced attrition for those countries with U/E less than 20.
2. That \$2M flyaway per aircraft is a realistic planning guide for aircraft built in multi-national program, based on \$1.8M flyaway from a single production line in Hawthorne (1968 dollars).
3. That a minimum of two squadrons is required in each country to be economically feasible.

C/p 125

T.V. JONES

R.E. NORRIS

PARIS

NOLCOMB

ROBINSON

KERMIT ROOSEVELT & ASSOCIATES, INC.

1120 CONNECTICUT AVENUE
WASHINGTON, D. C. 20036

FEB 28 7-1445

November 23, 1965

MEMORANDUM FOR: General P. W. Timberlake *his* CONFIDENTIAL

I met with Assistant Secretary of State Raymond Hare this afternoon. When I asked about present U. S. Government policy regarding the Saudi Arab Defense Program, Hare said that this was a subject that really should be discussed with the Defense Department, specifically Tim Hoopes or Henry Kuss. Hare was frank to state that he believed that the Defense Department should have discussed some of the decisions it has recently made on this subject with the State Department before making them. In point of fact, the State Department has been informed rather than been consulted and Hare, as well as those below him, are somewhat resentful.

Although he officially referred me to Defense, privately Hare confirmed the following: first, that there is an American "package" now being offered to the Saudis which includes the Lockheed aircraft, the Hawk missile, and radar and communications components which Hare was unable to identify. Second, the other package being offered the Saudis consists of the British aircraft and other British equipment together with the Hawk missile and possibly some other American components. Thirdly, the United States Government is maintaining a detached posture so far as influencing a Saudi decision is concerned. This is part of a broader agreement with the British relating to the sale of arms to different parts of the world.

Regarding the other question General Timberlake has requested me to raise with Secretary Hare, the Secretary professed to have no precise knowledge on the matter, and once again referred me to Hoopes. He could only repeat that he did know that there was some broad agreement on the provision of arms to different portions of the world either under negotiation with the British or already concluded. Its status and its details are unknown to him. He said that he would check into the matter and let me know if there was any more information he could give me.

Secretary Hare said that to the best of his knowledge it was correct (as indicated by Mr. Hoopes) that no American combat aircraft would be made available to the Governments of Lebanon, Jordan or Syria.

I have not yet been able to reach Tim Hoopes but will deliver General Timberlake's letter, or discuss its substance with Hoopes, if that seems preferable as soon as possible.

16m Roosevelt
Kermit Roosevelt

cc: Mr. Jack Bradley - Washington
Colonel Clay Tice - Northrop International
Mr. Walter Sutter - Page Communications Engineers, Inc. - Washington

KRM ROOSEVELT
 SEC 11C
 PAC 93-96

20 June 1969

Mr. Kermit Roosevelt, President
 Kermit Roosevelt & Associates, Inc.
 1001 Davis Building
 1629 K Street, N. W.
 Washington, D. C. 20006

Dear Kim:

It is my understanding that you are planning to see His Imperial Majesty, and in recognition of his past interests, I want to provide to you in this letter a status report of several aspects of the P-530 program.

With respect to implementation of the airplane design, very significant progress has been made. Additional testing of the engine has given us nearly absolute confidence in its expected performance as well as valuable insight into the interface with the airframe installation and the internal aerodynamics. Our own extensive wind tunnel and mechanical test program has matured the design to the point that we have felt secure in constructing a full-scale mock-up which is a very helpful aid in establishing engineering relationships and a visualization of the final weapon system. The integration of mission equipment into the design is now proceeding according to plan.

An additional bonus resulting from the full-scale mock-up has been the opportunity to show the design in a very realistic way to large numbers of senior people in our own government. The enthusiasm thus engendered has been very encouraging and certainly productive in providing a good environment for communication of our development concept. In this respect, I have attached a copy of the letter originally endorsing the program from the Deputy Secretary of Defense of the past administration. As a result of

Mr. Kermit Roosevelt

20 June 1969

Page Two

that letter, we have had the design, the development schedule and our estimated costs authenticated with a thorough review by the Aeronautical Systems Division of the United States Air Force at Wright Field. With this background, I have discussed the program and its intent with the Secretary and Deputy Secretary of Defense in the new administration, as well as with several senior members of their staff and senior staff members of the Air Force. The response from these people has been equally as productive as that received from the past administration.

Specific consideration was given in the early days of this year to the initiation of high-level talks between our government and the government of West Germany with the objective of establishing mutual support for the program in response to certain military needs of the West German Air Force and the several air forces of the Free World. This action has been held in abeyance, however, pending the initiation of the Multiple Role Combat Aircraft--75 development in Germany. It is generally realized that the MRCA-75 and P-530 correspond to quite different design objectives, and therefore are not competitive in the sense of satisfying a given military requirement. The MRCA-75 is optimized for the strike role and therefore has such features as variable geometry, relatively larger size and consequentially higher costs. The P-530, on the other hand, is optimized for the air-to-air role, with strong supplementary capability in air-to-ground tactical support. It is designed to be produced at a fraction of the cost of the MRCA-75. However, there has been concern that the insertion by the United States of the P-530 into consideration by the German government at this time would confuse the issue of the MRCA-75 and complicate the very difficult problem of initiating that multi-national program. The alternative has been considerable staff preparation by people in the State, Treasury and Defense Departments of our government


Mr. Kermit Roosevelt
 20 June 1969
 Page Three

as a prelude to the upcoming off-set payment negotiations between the United States and Germany. The prospect here is to encourage the German government to support the -530 program in augmentation of that money already invested by the United States with off-set funds that would not normally be available for expenditure in their own development program. This would provide all of the benefits, including a joint U.S.-German development program with a high degree of assurance of success and the potential for ultimate recoupment of development costs while satisfying the geo-political needs for German participation in the economics of Western defense.

Finally, you should know that I am currently anticipating a schedule of visits in Europe during the next month which includes conversations with senior government and industry officials in both Holland and Italy. In both of these countries there has been evidence of outstanding support in the past of the P-530 airplane, and I expect additional evidence of consolidation of that support in the impending discussions. Any public manifestation will, of course, be coordinated with the country position on the MRCA-75. The evolving characteristics of the two airplanes have had the effect of turning both countries in the direction of the P-530, but this is a transition which takes time.

I hope these comments are useful to you in any discussions in which you might become engaged in Teheran. If there are further questions, please don't hesitate to contact us.

With best personal regards,


 Thomas V. Jones

TVJ:REH:db

Handwritten notes:
 1. Review of the P-530 program
 2. Review of the MRCA-75 program
 3. Review of the P-530 program



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

AUG 23 1969

Mr. Thomas V. Jones, President
Northrop Corporation
P.O. Box 1525
Beverly Hills, California 90213

Dear Mr. Jones:

The Department of Defense has decided to participate in your proposed multi-national development of the P-530 tactical aircraft weapon system. This decision was based on the following factors:

1. By virtue of its extensive efforts to date and the investment of approximately \$12 million, the Northrop Corporation has a one-to-two-year lead in the ability to develop and produce an aircraft with the desired characteristics.
2. The need for such an aircraft is urgent and precludes the additional delay necessarily entailed in soliciting and evaluating competitive proposals.
3. There is no other existing U.S. aircraft which, by modification, could match the P-530 predicted performance, operating cost, and maintainability characteristics.

In view of the foregoing considerations, the Department of Defense will participate in this development in the amount of \$4 million provided that Northrop devises a P-530 development and production plan acceptable to the Department of Defense and that Northrop succeeds in gaining the agreement of at least two other countries with a minimum contribution from those countries of \$15 million for the first year's development effort. Northrop should make it explicitly clear to all participating countries that the Department of Defense cannot make any commitment to provide additional funds after Fiscal Year 1969.

Because of the urgent need for early availability of such an aircraft, and the multi-national character of the program, your company is expected to proceed in its discussions with these countries with a view toward determining at the earliest possible time, the character of their interest and the degree to which they desire to participate.

Sincerely,

Paul W. Hefner

KERMIT
SECTION
PAGE(S)

EVELT
C

14 March 1973

Dear Kermit:

As you know, both Ruth and I were so sorry to have to miss the dinner party you and Polly gave for the new Iranian Ambassador last week. Knowing the host and hostess, it was a special occasion, but, Kermit, you were outranked!

Did I tell you that, that Wednesday afternoon we were briefed by Dr. Kissinger, Shultz and Ehrlichman? Interesting.

I appreciated your suggested wire to the Consortium members and am sending a copy of the wire to you under separate cover.

Incidentally, Ruth and I agree that we couldn't have had better traveling companions on the CH than you and Polly. It was good to have you aboard.

Ruth joins me in sending our warmest regards to you both.

Cordially,

Thomas V. Jones

Mr. Kermit Roosevelt
1629 K Street, N. W.
Washington, D. C. 20006

cc Mrs. Jones ✓

KERMIT ROOSEVELT
 SEC 110
 PAGE 74-75

KERMIT ROOSEVELT & ASSOCIATES, INC.

1888 K STREET, NORTHWEST
 WASHINGTON, D. C. 20008

CABLE ADDRESS
 -KERMIT-

TELEPHONE
 TELEPHONE
 (202) 206-2614

April 5, 1973

PERSONAL

Thomas V. Jones, Esq.
 President
 Northrop Corporation
 1800 Century Park East
 Century City
 Los Angeles, California 90067

Dear Tom:

I apologise for the delay in responding to your two kind and generous letters sent to me recently. Polly and I were stealing a brief vacation with the Waldschmitts* down in the Virgin Islands. Incidentally, I am happy to report Joe's present frame of mind is most healthy and that his working relationship with Irv Kaufman appears to be excellent.

I have already expressed to Bob Gates, and wish to reiterate to you, my concern at the apparent downgrading of the long-discussed meeting on the Middle East. I continue to agree with your comment of last November that the Middle East represents the most exciting prospect for Northrop in the foreign field for the next few years. In fact, developments in public and governmental understanding of the energy situation increase this feeling. I can understand the reasons that would lead to the postponement of a Northrop meeting on the Middle Eastern prospects, but I do hope that when these discussions finally take place, they can be held under better conditions than those presently contemplated - namely, on the evenings of May 23rd and 24nd, when they will follow upon all day international marketing meetings running without interruption from 9 to 6. I would hope that the agenda for the international marketing meetings could be readjusted to allow for, at the very least, a half a day to be devoted to the Middle East, to be followed perhaps by less formal evening sessions. I would also very much hope that in addition to Bob Gates you and some of your senior associates could plan to attend these discussions.

As I told Bob Gates, my plan had been to go to Tehran sometime in mid May so that I would be able to give you in Paris an up-to-date report on the INTS situation prior to

PERSONAL

Thomas V. Jones, Esq.
Page 2

April 5, 1973

your June meeting in Tehran. I had then intended to propose to you, at Bob's suggestion, that I accompany you to the Mid East after the Paris air show for a visit which would include Saudi Arabia. I now gather from Samyr Souki that King Faisal may be in Europe at the time when I had been thinking of visiting him in Saudi Arabia. If we could see him in Europe, this would eliminate the need for your visiting Saudi Arabia. At the moment I see no particular reason for your wishing to have me accompany you to Tehran for the June meeting, but that can be left flexible.

Will Ruth be going to the Paris air show?

Polly joins in sending love to you and Ruth.

Sincerely,



Kermit Roosevelt

KR/th

KERMIT ROOSEVELT & ASSOCIATES, INC.
SECTION
PAGE(S) 1-63

KERMIT ROOSEVELT & ASSOCIATES, INC.

1620 K STREET, NORTHWEST
WASHINGTON, D. C. 20006

TELEPHONE
(202) 298-2814

CABLE ADDRESS
"KERMIT"

23 May 1974

Mr. James D. Willson
Senior Vice President
Finance and Treasurer
Northrop Corporation
1800 Century Park East
Los Angeles, California 90067

Dear Mr. Willson:

In accordance with your request, we are submitting herewith a brief account of the major services our corporation performed for Northrop Corporation and its subsidiaries during calendar 1973.

As reported in our monthly submission, we devoted each month more than half the time of one senior executive to Northrop activities.

Following is a general account by quarters:

First quarter:

January: A senior official of the company was in Lebanon conferring with and assisting a corporate representative of Northrop, a representative of Page, and a Lebanese-based consultant to Northrop in various projects.

Later in the month these same projects were pursued with Page representatives in Vienna; and there were also meetings with Northrop's consultant on Saudi Arabia.

At the end of the month there was a trip to Century City for meetings with the president and other senior members of the corporation.

February: There were a number of meetings with Page representatives including their out-of-house counsel on Iranian and Saudi Arab projects. In the latter half of the month, a senior member of the consultant corporation met with the President of Northrop and the Shah and other top Iranian officials in Switzerland.



March: A senior member of the consultant corporation visited Beirut and Tehran for consultation with Northrop-Page representatives responsible for the Middle East. Later in March there were a number of meetings with the President of Page and other senior Page officials, particularly on the Iranian program. There were also meetings with the Iranian Ambassador and other Embassy officers.

Second quarter:

April: Page's Iranian problems continued to be acute and there were further meetings, both with Page officials and with Iranian Embassy representatives. A top official of the Saudi Arabian government also visited Washington for consultation, as did Northrop's consultant for Saudi Arabia, resident in Saudi Arabia.

There were also consultations with top Northrop officials and the Kuwaiti Ambassador.

In May there were additional meetings with Northrop's consultant on Saudi Arabia, resident in California, with the Kuwaiti Ambassador, the Iranian Ambassador, and Northrop and Page representatives.

At the end of May a senior officer of the consulting corporation went to London, Paris, Switzerland and Iran to accompany senior Northrop representatives in meetings with the King of Saudi Arabia and other senior Saudi officials and the Shah of Iran and senior Iranian officials - and to assist in representing Northrop at the Paris Air Show.

In June there were follow-up meetings with Iranian and Saudi representatives in Washington, together with Northrop and Page personnel.

Third quarter:

July: There were a number of meetings with U.S. officials and Northrop representatives on Northrop Middle Eastern program and there was also consultation by telephone with the Northrop consultant in Beirut and the Lebanese Ambassador in London in connection with Page programs and also NADC. The possibility of Sudanese projects for Northrop and Page was also the subject of discussion with U.S. officials and Sudanese representatives.

At the end of the month a senior representative of the consulting corporation went to London and Khartoum in connection with Sudanese and other Northrop-Page projects.

August: same representative was in Saudi Arabia and Lebanon consulting with top Saudi officials and Lebanese consultants on Arabian projects.

At the end of August senior officer of the consulting corporation returned to the Middle East on urgent business for Northrop in Tehran.

September: there were a number of meetings on the Sudanese program, the Iranian problems which continued to be acute, and Saudi programs, particularly related to aircraft division.

Fourth quarter:

October: President of Northrop came to Washington for meetings with the consultants and U.S. government officials and a consultant also went to New York to meet with Lebanese officials attending the U. N. General Assembly in connection with Northrop-Page projects.

November: two senior officers of the consulting corporation made a trip to England, Lebanon, Saudi Arabia, and Iran to confer with foreign officials in support of Northrop-Page projects.

In Washington, these discussions were followed up with Page-Vienna personnel and with Iranian and Saudi Embassy representatives.

December: there were a series of meetings with visiting Saudi officials, with the Kuwaiti Ambassador, and with U.S. government representatives in conjunction with Page and Northrop personnel.

K. Roosevelt

Kermit Roosevelt

KERMIT ROOSEVELT & ASSOCIATES, INC.
1029 K STREET, NORTHWEST
WASHINGTON, D. C. 20005

TELEPHONE
(202) 296-2614

CABLE ADDRESS
"KERMIT"

23 May 1974

Mr. James D. Willson
Senior Vice President
Finance and Treasurer
Northrop Corporation
1800 Century Park East
Los Angeles, California 90067

Dear Mr. Willson:

In accordance with your request, we are submitting herewith a brief account of the major services our corporation performed for Northrop Corporation and its subsidiaries during calendar 1972.

As reported in our monthly submission, we devoted each month more than half the time of one senior executive to Northrop activities.

Following is a general account by quarters:

First quarter:

January: officers of KR&A made a trip to Lebanon, Iran and England in the furtherance of Northrop business. We called upon State Department and other US agencies on an average of at least twice weekly during February, and held even more frequent meetings with Page people to discuss their foreign operational problems. In addition, there were meetings on a frequent basis with the Iranian Ambassador, the Kuwait Ambassador, and Saudi Embassy people in connection with Northrop and Page problems. In February-March another trip to England, Beirut and Switzerland was made in advancement of Northrop business.

Second quarter:

April: arranged meetings between Northrop representatives and Defense department personnel, and also participated in meetings with Iranian and Arabian representatives on behalf of Northrop and Page. Made trip to Los Angeles for consultation, and subsequently to Beirut, Iran, and England. In early May a number of meetings were held with Page and NADC personnel on their common operational problems, and calls were made in same connection on Ambassador of Iran, Saudi Arabian representatives, and the Department of State. In June: met with the Turkish Ambassador

and Saudi Embassy staff; also held meetings with Northrop's Middle East consultant operating out of Lebanon, and with Page and NADC personnel. Another trip to California to confer with Northrop corporate headquarters on Iranian operational problems. Frequent trips for consultation to Page offices in Vienna, Virginia.

Third quarter:

In July numerous meetings with US officials, with Page personnel, and consultations via phone with Northrop corporate officers, on Iranian and Saudi Arabian programs. In August, there were meetings with senior corporate personnel on Northrop-Iranian problems and in September another trip to London, Spain, Greece, Iran, Lebanon and finally Switzerland. This trip also included Saudi Arabia, and extended to the end of October.

Fourth quarter:

In November, extended consultation with Northrop's Lebanese based Middle Eastern consultant and officials of the National Security Council, State Department, and Department of Defense together with Northrop corporate and Page people. And a trip to California together with the Middle East consultant and the Jordanian consultant for conferences. In December there were a number of meetings with Page and NADC people and State Department representatives, members of Embassy staffs of Iran and Jordan. Finally, there was an additional trip to Lebanon, Iran, and Egypt in advancement of Northrop-Page business.

K. Roosevelt

Kermit Roosevelt

KERMIT ROOSEVELT
 SECT 11C
 PAGE 57

C O P Y

Tehran, Iran
 16 June, 1974

His Excellency
 Assadollah Alam
 The Minister of Court
 Tehran, Iran

My dear Alam:

At the audience that His Imperial Majesty graciously granted Mr. Tom Jones and myself on Saturday, there was a full review of airplane problems and the following points were made by H.I.M.:

- 1) H.I.M. would have it made clear to the U.S. Air Force that he did not agree to purchase, on a 3 to 1 ratio or on any other basis, any lightweight fighter selected by the USAF. The Imperial Iranian Air Force has its own definite requirements for such a fighter, which should be made generally known to USAF, and if these requirements are not met by the USAF choice, the IIAF would make its own separate purchase.
- 2) The IIAF strongly prefers twin-engine aircraft, and should advise USAF accordingly.
- 3) H.I.M. wonders if there has been some change in U.S. Government policy regarding collaboration between U.S. companies and friendly foreign governments for the manufacture of fighter aircraft, and has commanded me to ask Ambassador Helms to clarify this point with the State Department.

Sorry not to have seen you again, and with best regards to your family,

Sincerely,

Kermit Roosevelt

PART B - 4

MATERIAL RELATING TO NORTHROP AGENTS IN IRAN

PART B - 4 a.

MANAGEMENT AND TECHNICAL CONSULTANTS (MTC)

NAME	DATE
FILED <i>JB</i>	<i>9/13/74</i>
APPROVED	(358)
	<i>2 of</i>

Gonzalez *AT*

members of the Mahi group that he was aware of were a General Hatanani, who is an Air Force General, and a Khatani, a former General who knew Leonid Brezhnev. He also mentioned a Haglani who is a representative of MTC in the United States (New York). He said that he was not aware of the reason for the money change and assumed that the reason for the switch from Switzerland to Bermuda was for tax purposes.

Inquiries were made as to why MTC was retaining an agent in Iran when Northrop was providing it with F-5 to Iran without agents. Gonzalez said that he had been approached by Mahi who said that they could aid Northrop in getting additional sales which at that time were not forthcoming. He said that he relayed this information to the Corporation and an agreement was entered into. Additional sales were subsequently obtained. He was not aware of what was done by MTC to get the sales. *8/5/74*

NAME	DATE
PREPARED BY <i>JB</i>	<i>9/13/41</i>
APPROVED BY <i>(359)</i>	

Gonzalez - ATS

Olaf Zelenka asked Gonzalez whether he was aware of an German influence in getting contracts in Spain and asked Gonzalez if he had ever heard of Dr Buch and a Bernalum who are reported involved in E.O.C. Gonzalez indicated that he was not aware of any such influence and he had never seen or those two individuals. He did note, however, that there was in general a strong German influence in that country.

Inquiry was made regarding a draft of an agreement between ATS which had a paragraph (5a) which provided for Northrop to withhold payments to ATS for six months for the purpose of determining whether any portion of such commission would be required for national purposes. This was subsequently deleted from the final agreement (see memo follows regarding questions to George Gore for further details on this matter). Gonzalez said that he did not recall anything about this draft and was not sure what the intention was. He also stated that he was not aware of any

NAME	DATE
PREPARED BY	13 7-14
APPROVED BY	(360)
	406

Gonzalez-ATS

reserves that may have been provided for any additional agent payments in Iran.

We then questioned Gonzalez regarding the proposed settlement with MTC. He explained that Northrop had informed MTC that due to U.S. Government regulations they would have to disclose the fact that there were contingent fees involved in sales to Iran. Such disclosure was not required in the case of the planes that ultimately went to Iran were not designated for that location at the time the U.S. Government contracted for the planes. He said that MTC did not want this disclosure to be made and have tried to attempt to receive payment without such disclosure. Northrop was informed then that if any payment was made that there would have to be a disclosure.

We asked him why MTC did not want this disclosure to be made. He said he did not know. However, speculated that it was possible that they did not want

NAME	DATE
PREPARED <i>J.B.</i>	<i>9-13-74</i>
APPROVED <i>(361)</i>	<i>595</i>

Gonzalez - HTS

Toufanian (Minister of Defense of Iran) to know about the fees. He exclaimed that it was Toufanian who has pushed for Iran approval of agents and that it was possible that Maheri did not want to be held out as an agent. He spoke of bad feeling between Toufanian and Maheri.

The status of the proposed settlement was discussed. Gonzalez said that this was still unresolved however he thought that there would not be a discount on the amount due to HTS. He went on to state that he felt that even though the payment for total future commission due on existing contracts probably would not be discounted, that it would be in the best interest of the Corporation to have the agreement cancelled due to the amount of commission that would otherwise be payable on spares sales and future contracts with Iran.

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Northrop Special Investigation

Discussion With Jeff Kitchan on 9-27-74

On September 27, 1974, Barry Gray and myself had a conference telephone conversation with Jeff Kitchan. The primary purpose of our phone call to Mr. Kitchan was to clarify certain matters regarding Northrop relations with MIT & Technical Consultant (formerly ATIS). In addition, Gray wanted to ask Kitchan about his follow-ups on confirmation requests on INTS. The purpose of this memo is to summarize our discussion with Kitchan on 9-27-74.

When we told Kitchan that we wanted to get additional information on MITC (primarily referred to in our discussion as the "Mahir Group") He reiterated what he had told to Barry Gray in Washington on 8-5-74. (See separate write-up attached). About the only thing he added to his comments concerning Mahir's involvement in IACI was that certain individuals involved in certain official capacities in Iran were "blind stockholders" in IACI as discussed further below.

We told Kitchan that we were

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primarily interested in Madri's agent relationship with Northrop involving the sale of F-5Es and background thereon.

We questioned him about paragraph 5(c) that was deleted from the final agreement and the intended purpose of the comment "withhold for national purposes." He said that this was originally in there for the purpose of reclaiming the commission to the agent in the event that Northrop was "hit from higher" levels for payments. He said that this was deleted due to overall corporate interest and the relatively small commissions that are being paid. He stated that he was not aware of any other payments that were made and any future commitment for payments.

I inquired about the reason for obtaining an agent in place, even though Northrop has previously sold 100 F-5's in Iran without an agent. He explained that the first portion of those sales were MAF and the continuation of

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3 of 5

tation

the agent was related to the sale of F-5Es. During the course of our conversation he noted that the sale was increased from 36 to 146 even though Iran was also buying F-4's and he was surprised by this.

When we first asked him about who was involved in the Mahvi group he mentioned a Spencer Dunn, whose signature is on various IIS correspondence and another individual. I mentioned that I had seen correspondence to the effect a General Khatauni was influential in Iran's decision on the F-5E buy and that he was part of Mahvi group. He then explained that Khatauni had been a "blind stakeholder" in IACI and was involved with Mahvi. Khatauni was an Air Force General and another individual with a similar name (I believe it's spelled Hatami) who is the head of Iran's National Airlines was also involved in a similar capacity. He finished briefly about the nationalization of oil and the fact that this had

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Kitchen

affected this ^{future, etc.} He confirmed that the reason for the confidential nature of the agent agreement was due to their involvement and that this was the reason no disclosure was made by the aircraft Division.

During the course of our discussion disclosure requirements on FTS were briefly covered. Kitchen noted that the agents' agreement with ATS occurred prior to such requirements. He also mentioned that Torgianian was the one who pushed for the Government to request disclosure, etc. due to the difficulty in the Shah was having in controlling this in Iran.

Gray inquired about the correspondence involving possible joint ventures with Mahir in Iran and if there were any commitments. Kitchen said that he was not aware of any commitments. He explained that Mahir has been seeking some joint ventures.

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Kitchen

Iran since the nationalization of I.A.C.I.
He went into some background on
what has been happening in
Iran - the Shah has been trying
to get people to surrender
from and starting present
understanding etc. and at the same
time planning with the military.
Kitchen described Wachi and
people associated with him as
believing in free enterprise, etc.
and looking for means to
accomplish this.

Kitchen stated that Northrop's
relationship with this agent
has provided a good source
for information on foreign relations
and other matters.

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NORTHROP PRIVATE

NOTES FOR MR. JONES' TRIP*(Undated, apparently late 1970 or early 1971)*I. IRANA. IACI

The Shah has decided that the ownership interest which was held in IACI (through nominees) by Gen. Khatami and Gen. Khademi presented a conflict of interest which could prove embarrassing to him and his government. He therefore directed that the 51% ownership in IACI held by private Iranian citizens (including the two generals) be acquired by the government. These private citizens regret having to dispose of their ownership interests but they are obviously prepared to do so since the Shah has directed that it be done. (Gen. Khatami told Kitchen and Gonzalez that he thought of retiring from the Air Force so that he could continue to hold his shares in IACI, but that after talking to the Shah decided that it was not appropriate.)

If the government owns more than 50% of a private company in Iran, the company, by law, becomes a state agency and therefore subject to restrictions and regulations which normally govern the operation of any governmental agency. This would change the character of IACI and in all likelihood hamper its growth and profitability. The original concept for the acquisition of the 51% interest by the government was for this ownership interest to be acquired by the Organization of Military Industries (OMI). This is a state agency which operates the armory and participates in the helicopter.

OMI.

NORTHROP PRIVATE

Gonzalez prepared a position paper and gave it to Toufanian and to M. Samii (who holds the title Ambassador at Large, but, in fact, functions as a deputy to the Prime Minister). ~~A copy of the position paper is attached.~~ Toufanian and Samii have been charged with negotiating the acquisition of the 51% interest by the government. After reviewing the position paper, Samii advised Kitchen that they accepted the basic principle that IACI should maintain its commercial character rather than become a state agency. He suggested that Northrop retain its 49%, OMI acquire 24.5%, Iran Air (also a 100% government-owned agency) acquire 24.5% and the remaining 2% be acquired by a third party company not owned by the government. In this way IACI would be less than 50% owned by the government and therefore not subject to the rather restrictive regulations which apply to government agencies. This is an acceptable and workable solution.

In connection with the 49%/49%/2% ownership approach, the basic question to be resolved is who will hold the 2%. Samii in conversations with Kitchen and with Gonzalez has stated that they desire this 2% to be held by the Industrial Mining and Development Bank of Iran (IMDBI). The charter of this company appears to be compatible with our objectives for IACI and IMDBI could make a real contribution to the growth and development of the company. The only possible concern with IMDBI as the holder of the 2% is that it would be influenced by the 49% held by the two government agencies in any voting split and thus place Northrop in a minority position in crucial voting issues. The practical benefits of having the participation of IMDBI in IACI should more than offset our concerns in the area of voting.

NORTHROP PRIVATE

A draft of a detailed shareholders agreement (in the nature of a partnership agreement) has been prepared and reviewed with Samii by Gonzalez. No problems or major disagreements are expected in resolving all of the items covered by this agreement. Gonzalez is scheduled to meet with Samii in Tehran on 27 October 1971 to finalize this agreement and to take other actions (i.e., filing of amended Articles of Association with the proper government agencies) necessary to complete the restructuring of IACI.

B. F-5E

Gen. Khatami has indicated that the ILAF has a requirement for the F-5E; however, because of the restricted number of qualified personnel (made more restrictive by virtue of the additional F-4's), it will be necessary for the F-5E to replace aircraft now in the inventory. This is not necessarily on a one for one basis, in fact, the numbers he mentioned were 32 F-5E's to replace 16 F-5A's.

Gen. Toufanian indicated to Kitchen and Gonzalez that he would welcome Northrop's help in finding a purchaser for the F-5A's. He also stated that funding for the F-5E's would be a problem if the normal FMS cash dependable undertaking schedule was required by the USAR. Gonzalez advised him of the FMS Act provisions which do permit a delay in initial payments for 120 days following actual delivery of hardware without interest

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cost. This would mean no payment would be required from the LIAF for approximately 2 years following acceptance of a Letter of Offer (contract go-ahead). Gonzalez, at Toufanian's request, prepared a letter for his signature to ask the USAF for a Letter of Offer on the F-5E at favorable payment terms. This letter of request has not been sent in by Toufanian. It is understood that the reason for his not turning the letter in is that he did not want to do so until after T. V. J's visit to Iran and possible discussions with him on the F-5E.

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

In reply refer to:

CORPORATE PRIVATE

To: Manny Gonzalez

From: Jeffrey C. Kitchen

Subject: SEE BELOW

Date: 10 April, 1972

Copies: Thomas V. Jones
F. W. Lloyd
W. Gasich

Ref:

Pursuant to our conversation of 9 April, I want to set forth the following as a matter of record.

Considerations relating to the overall Corporate position in Iran have led me to conclude that it is essential to delete paragraph number 5h from the draft agreement between the Corporation and Aviation Technical Services Co. Ltd. This means that paragraph number 5a would become fully operative and a commitment of the Corporation.

Therefore, I have decided to delete the paragraph and also, to request you to handle the costing on the impending orders for the products and related equipment in a manner that will set up a reserve fund equivalent to the amount now specified in the deleted paragraph and for the purpose set forth in that paragraph.

The Corporate considerations are the following:-

- a. The introduction of the paragraph, in writing, at a date after the placing of the Letter of Intent in the United States, even though a general verbal warning regarding a contingency requirement had been given to at least two officers of the Aviation Company, smacks almost of sharp operation and bad faith. In this culture, it will almost certainly be so interpreted. I do not want anyone in Iran, much less the personnel of the Aviation Company, to so regard the Corporation.
- b. At the present time, our problems with INTS require mobilization of all the resources that can be brought to bear in support of our subsidiary. We cannot have any uncertainty regarding our good relations with the officers of the Aviation Company, much less any additional ill will, even if the latter may not be entirely justified and could be only temporary.
- c. Developments relating to another major project in country are quite encouraging. These are due almost entirely to the recent, singular effort of a leading officer of the Aviation Company. While the proposed agreement between the Corporate entity that will be involved and the

CORPORATE PRIVATE

NORTHROP

- 1 2

Memorandum

• Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

In reply refer to:

CORPORATE PRIVATE

To: Manny Gonzalez

From: Jeffrey C. Kitchen

Subject:

Date: 10 April, 1972


Copies:

Ref:

Page Two

Aviation Company stands by itself, this is no time to have generated any doubts regarding Corporate consistency, intent or long-run purpose.

- d. Highly important, the Aviation Company officers believe a specific service was rendered by them and that their action was critical to the judgement of national leaders to proceed. Their action was also clearly related, in their thinking, to previous conversations with senior officers of the Corporation. When these considerations are added to my judgement that it is the Aviation Company's intention to maintain this relationship with the Corporation through the next model of our principal product, it is highly important that all elements of cooperation be maintained fully.
- e. Finally, in my judgement, the overall services so far received and the potential services to be rendered are and will be a highly important part of our Corporate operation here and, on their own, fully justify the action I have taken.


JEFFREY C. KITCHEN

/lms

CORPORATE PRIVATE

NORTHROP

Memorandum

Northrop Corporation, Corporate
1800 Century Park East, Los Angeles, CA 90067

In reply refer to.

To: **Bonnie J. Meier**

From: **George Gore**

Subject: **Management and Technical Consultants Co. Limited**

Date: **August 3, 1973**

Copies: **F. W. Lloyd**

Re:

We entered into a contract dated June 1, 1972 with Aviation Technical Services Company Limited of Zurich, Switzerland. The contract called for us to pay an annual consulting fee of \$150,000 commencing as of August 1, 1971. We have made the payments for the year beginning August 1, 1971 and the year beginning August 1, 1972. You should now make the payment of \$150,000 for the year beginning August 1, 1973.

However, the contract has been assigned by ATSC and the payment should now be made to: Management and Technical Consultants Co. Limited, P.O. Box 1179, Reid House, Church Street, Hamilton, Bermuda.

Please forward the check to me for transmittal.

**George Gore, Vice President
and General Counsel**

GG:rk

July 16, 1973

AIR MAIL
SPECIAL DELIVERY

Mr. M. Haghani
65-61 Saunders Street
Rego Park, New York 11374

Dear Mr. Haghani:

Aviation Technical Services Company, Ltd. (ATSC) entered into a contract with each of the following entities: Northrop Corporation; Northrop Corporation, Acting through its Ventura Division; Northrop Corporation, Acting through its Aircraft Division; and Northrop Airport Development Corporation. Last November, ATSC assigned all four of these agreements to Management and Technical Services Co. Ltd., P.O. Box 1179, Hamilton, Bermuda. Each of the Northrop entities involved agreed to this assignment.

We now have letters from ATSC dated March 24, 1973, informing us that an error was made in the name of the assignee and that the correct name of the assignee is Management & Technical Consultants Co. Limited. There never was an entity named Management and Technical Services Co. Ltd.

We enclose a copy of the ATSC letter dated March 24, 1973, relating to each of the four contracts. These copies have been executed on behalf of the Northrop entities, manifesting their acknowledgment of the correct name.

Very truly yours,

NORTHROP CORPORATION

By _____
George Gore, Vice President
and General Counsel

GG:rk

Encls. bcc: F. W. Lloyd
 W. E. Woolwine
 Welko E. Gasich
 Glenn R. Lord
 (each with copy of pertinent signed letter)

Memorandum

Corporation, Corporation
 Century Park East, Los Angeles, CA 90067

In reply refer to:

TO: M. G. Gonzalez

FROM: George Gore

SUBJECT: Iran

DATE: October 12, 1973

COPIES: F. W. Lloyd
 C. R. Gates
 R. B. Watts, Jr.

REF:

I enclose your proposed letter to Mr. Haghani. I think you are correct in stating that the agreement of June 1, 1972 between the Aircraft Division and MTC includes the F-5F.

Bob Gates inquired whether the agreement also covered the Cobra. In my opinion it does because it applies to all sales by Northrop of aircraft - any model - to Iran. Bob wonders if we should not at this time make an effort to have the Cobra excluded by express agreement.

George Gore, Vice President
 and General Counsel

GG:rk

Encl.

File C. D. Under '19

RECEIVED

NORTHROP

24 mtc

29 October 1973



Mr. M. Haghani
 65-61 Saunders Street
 Rego Park, New York 11374

Dear Mr. Haghani:

I understand that you have requested of Mr. Kitchen an assurance from Northrop with respect to the inclusion of the F-5F within the coverage of the Consultant and Representation Agreement between Northrop Corporation, acting through its Aircraft Division, and Management & Technical Consultants Co., Limited dated 1 June 1972.

In response to that request, this letter will confirm the fact that it was and is our intention to consider the F-5F as falling within the scope of this Agreement.

Sincerely,

Manuel G. Gonzalez
 Manuel G. Gonzalez

jt

bcc: P. H. Champion
 W. E. Gasich
 C. R. Gates
 G. Gore
 J. C. Kitchen
 F. W. Lloyd

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NORTHROP PRIVATE

NORTHROP

Executive Assistant to the Vice President — Contracts and Pricing

June 26, 1974

Mr. M. Haghani
65-61 Saunders Street
Rego Park, New York 11374



Dear Mr. Haghani:

In connection with our proposal to liquidate our current agreement covering the sale of F-5 aircraft, we are attaching the following items:

1. The termination of our current agreement in consideration of a final fee in the amount of \$1,310,000.
2. A reconciliation showing the method of arriving at the amount of the commission accruing to MTCC, assuming that it would be paid on or about July 1, 1974, and also assuming that the FY '73 and FY '74 Iranian F-5E procurements are completed as presently anticipated.

Time is of the essence in consummating an agreement in this matter since the requirement for Northrop to sign a Contingent Fee Statement is imminent, and without the foregoing termination we must certify in the affirmative.

If you have any questions in this regard, feel free to contact us.

Very truly yours,

P. H. Champion

Attach.: (2)

Northrop Aircraft Company, 3801 West Broadway, Hawthorne, California 90250 • Telephone

NORTHROP PRIVATE

NORTHROP PRIVATE

Management & Technical Consultants Co., Limited

Page Two

June 26, 1974

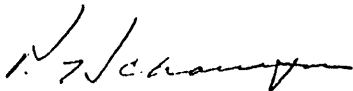
Upon the return to us of the enclosed copy of this letter, signed by you, and the receipt by you of the sum designated above, the Agreement, including all amendments thereto, shall be deemed terminated as of the date of this letter and neither party shall have any further rights or obligations thereunder. In addition, it is hereby confirmed that the Agreement dated June 1, 1972, between MTCC and Northrop Corporation terminates as of July 31, 1974, and that neither party will have any rights or obligations thereunder after said date.

Very truly yours,

NORTHROP CORPORATION

Acting by and through its

Aircraft Division



P. H. Champion

Accepted: _____

Management & Technical
Consultants Co., Ltd.

NORTHROP PRIVATE

NORTHROP PRIVATE

RECONCILIATION

The following summarizes the estimated potential commissions payable by Northrop Corporation to Management & Technical Consultants Co., Ltd. under the existing agreement between the parties:

FY '73 Procurement - (Northrop Content)

58 Aircraft @ \$ 915,570	\$ 53,103,060
Changes	<u>6,536,741</u>
Subtotal	\$ 59,639,801
Spare parts & AGE	4,545,493
Mobile Training Set	<u>1,089,932</u>
Total FY '73	\$ 65,275,226

FY '74 Procurement

83 Aircraft @ \$ 842,780	\$ 69,951,404
Changes	<u>9,484,352</u>
Subtotal	\$ 79,435,756
Spares, AGE (estimated)	<u>4,000,000</u>
Total FY '74	<u>\$ 83,435,756</u>
Grand Total	\$148,710,982

Commission @ 1.5%	\$ 2,233,665
less comm. on comm.	<u>33,500</u>
Total est'd potential comm.	\$ 2,200,165
Present value of \$2,200,165 =	\$ 1,760,000
less advance	<u>450,000</u>
Balance owing MTCC	\$ 1,310,000

NORTHROP PRIVATE

He stated that the three \$150,000 payments made to the ATS under the consulting agreement, were made for services that had been performed and were being performed. He stated that Northrop knew that ATS was incurring costs on Northrop's behalf, and this consulting agreement was entered into in an attempt to reimburse them for effort expended. They did not want to just make advances under the agency agreement, so they came up with the consultants agreement as a vehicle for paying them for services rendered. He stated that, of course, all payments made under the consultants agreement would be offset against agency fees which may be earned.

-2-

I then proceeded to ask him specific questions with respect to ATS. I asked if Lloyd was aware of the principles and what the distinction between ATS and the subsequent assignee name of Management and Technical Consultants might be. He paused, I then threw out the name Mahvi which I had seen in the correspondence as being involved with both ATS and M and TC. As I mentioned Mahvi, he then responded to both questions at one time, stating that he did not know what he really should say here, inasmuch as there was some sort of an agreement not to really disclose the name of any principals in any Iranian agency companies. He stated that since I had mentioned Mahvi, he acknowledged knowing him, and stated that really that was the only principal in ATS that he thought he could identify. He stated he did not know any of the other principals. As to why the change to M and TC and the relocation to Bermuda, he stated he did not know, but that it was a request of the agents, that the legal department at Northrop had reviewed it, and saw no problem with it, thus the change was made, as an accommodation. He stated that Mahvi was a very successful business man, that he knew he had a major computer installation in Iran and did computer services for the government in some fashion, and that he was basically very highly regarded. I asked what the implication was as to the correspondence which indicates that Northrop and Mahvi are presently discussing the possibility of joining in some kind of a joint venture. He stated that as much as he knows about this, is that Mahvi had approached Northrop and asked them if they would be interested perhaps joining Mahvi in some business enterprise in Iran if he comes up with something. Northrop apparently has stated that they would be glad to discuss this with him, but that certainly no commitments existed at present.

I then discussed why Northrop was attempting to terminate the ATS agreement, what the problem was with the legality in Iran, etc. Lloyd recounted how the recent (sale in the last year) rule in the Iranian government that agencies had to be approved by them before they would make reimbursement under any FMS sales generated this problem. Apparently ATS did not want their agency agreement to be disclosed and approved by the government, thus they in fact somewhat closed the door on future commissions. Apparently in the mill are some commissions that may be owed to ATS under F5F sales. Lloyd stated that since ATS did not want their relationship to be disclosed and approved, that Northrop then took this to mean that the agency agreement with respect to the F5F sales was null and void, thus no commission or agency fees would be paid on such sales. Lloyd then stated that because of this problem, the question of the commissions or agency fees that might be due on F5E sales was also discussed. ATS has apparently already earned these fees prior to this new Iranian law, and that they will be paid to ATS as soon as the payment flow from Iran to the U. S. Government to Northrop is consummated. Apparently there is no problem with the F5E commissions, but Northrop just felt that since the F5F had triggered the question and was going to be the future sales emphasis, that maybe the whole agreement ought to be cancelled and terminated in some fashion. Northrop has thus made a settlement offer to ATS, attempting to somewhat settle all amounts that will be owing to ATS on the F5E and commissions at some present value. Lloyd does not know the present status of this termination proposal.

I asked if any transactions with ATS preceded the agreements presently in existence. Lloyd stated no, that the first contacts with Mahvi and his group came from the Northrop involvement in Iran Aircraft Industries. Apparently Mahvi was the approximately 50% holder in Iran Aircraft Industries, and thus became somewhat of a partner with Northrop when Northrop invested their 49%.

-3-

Later on, when the government of Iran decided that Iran Aircraft Industries ought to be a government entity, Mahvi's interests were apparently purchased by the Iranian government, thus he no longer is directly associated with that organization. But through these dealings apparently Northrop learned of his reputation and business acumen. Thus evolved the agency agreements. He stated that the Mahvi relationship really started through Jeff Kitchen, inasmuch as Kitchen had been very instrumental in getting Iran Aircraft Industries and Northrop together in the first place. He stated Kitchen was really somewhat the head Northrop man in Iran, and that he thought he would be quite familiar in describing the ATS role since its inception.

He stated that he felt the ATS agreement was one of the better agency agreements, that they had spent considerable time making sure that it was documented and was very tight and not of the "looseness" that seemed to prevail with many of their agreements. We talked briefly how this compared to Triad, Lloyd saying he felt ATS was much better than Triad, just because they did perform a good service, and Northrop had to pay substantially less in fees. I talked generally about the seeming overlap of fees that may be paid certain agents for the same sale. Lloyd said he thought this would really be the exception to the rule, and when I mentioned what about commissions that may be paid EDC on Iran sales, he stated that this would be in fact a duplication "if those payments are made." I asked as to his knowledge on EDC, he stated he had none and as far as he knew, the only man at Northrop that really did would be T.V. Jones. He stated that whereas Gonzales and Champion were probably very close to ATS, he believed they knew very little at Aircraft with respect to EDC. He again stated that for information on EDC, Mr. Jones would have to be contacted.

I inquired as to what other ATS agreements existed, and Lloyd recounted how ~~the~~ one existed at Ventura and at NADC. He stated that at Ventura, ATS will receive fees on sales of Drones, again only if they are direct and he does not feel the FMS is a problem on their product. He stated that as far as he knew, nothing had been earned by ATS with respect to NADC.

Some general discussions ensued as to what the agents did, Lloyd referring me to the various memos which describe this which had already been provided us (particularly the Triad memo as presented to the DCAA) and he stated his general feeling that whereas he wished Northrop did not have to deal with agents, it was really a way of life. He stated they looked very hard at agency agreements to make sure that in fact they are necessary, because they did not want to become complacent in this regard. For example, he stated that the English seem very complacent and seem to say to themselves that they don't mind paying a 25% agency fee if everyone else is, and if it's covered under the contract. Lloyd said, on the other hand, he would rather attack this and try to keep it reasonable at least. He stated that even in Iran there is double-talk as to when an agent fee should be paid and when it shouldn't, that certain officials there will say it's all right as long as it's a reasonable percent, however this is somewhat double-talk and very hard to really defend. I then referred to two items of correspondence which I had observed in the papers and upon which I wished to obtain Lloyd's observation. The first of these had to do with a letter to file from George Gore, talking about the payment of the three \$150,000 amounts. The thrust of this memo was that ATS could ask for this amount in advance (or at the start of the year) rather than at the end of the year. Gore's memo to file restated that the agreement is silent in this regard, thus he believes the payments should be made "given the political considerations." The choice of words was discussed, Lloyd reciting that whereas he did not know exactly what Gore meant, he assumes the political consideration had to be as between Northrop and the ATS. He stated that clearly he has no knowledge of this Company ever being used for any work such as Savy. I then

-4-

Emerson showed him a draft of the initial agreement with ATS. Contained in the draft was a provision that Northrop could "withhold payments up to six months, in order to determine if any amounts were needed for national purposes. If not needed, the amount would then be released to ATS." (This is not a verbatim quote, but the thrust of the agreement.) That provision was taken out of the final agreement, but I wish to pursue why it was in there in the first place and what it meant. Again Lloyd stated he had never seen that before to the best of his recollection, he did not know what it meant, but he stated that Manny Gonzales would probably be the one to clarify, inasmuch as he thought that he had drafted this early agreement.

With that, the meeting was concluded.

IACI TRIP - MAHVI

1. Lloyd states that Mahvi has expressed his willingness to look to IACI for compensation only in the areas of parts sales and regional business he brings in. This was expressed during a meeting between Lloyd, Kitchen and Mahvi. Assuming this is the case, it would be appropriate for IACI to develop agreements to be signed with the Mahvi Group in these two areas and it would be the understanding of the parties that these agreements and the amounts paid under them should be able to stand up under an audit-type scrutiny. The obligations would be IACI's and not Northrop's.
2. Lloyd indicates that Mahvi and his group ~~are~~ expecting a commission to be paid on the sale of the F-5E, that he ~~bas~~is this on previous conversations with me where in his opinion I committed to such commissions in the event the sale of the F-5E could be moved off deal center. He indicates that General Khatami, who is part of his group, moved the sale along the lines it is now on based upon his understanding from Mahvi that he would participate in such a commission. The fact of the matter is that the sale was not proceeding and now is. There may, therefore, be some truth to Mahvi's statement; however, at no time did I make a firm commitment to Mahvi, but I did indicate that we would explore the possibility of making such a payment. I explained to him at that time it would be extremely difficult since over 120 F-5 airplanes had been sold into Iran by Northrop without any commission. This will have to be clarified with Mahvi as soon as possible.

From the desk of

ROBERT WATTS

July 24, 1974

Ros:

The attached should be filed in the Aviation Technical Services agent agreement document-clip (Iran). Mr. Gore wrote an opinion in February that the sale of Ventura products to General Dynamics would not involve a commission where General Dynamics makes a direct sale to the Government of Iran.

This procurement has now changed from a direct sale to a government to government (FMS) sale by General Dynamics.

The agent has asked if he will receive a commission, which based upon Mr. Gore's memorandum, I informed Bob Gates that a commission still would not be applicable.

As a consequence, the attached telex was sent to Tehran.

PAGE 1 OF 1	
F. H. KEENAN - TEHRAN	
CC: G. C. GROGAN	
R. B. WATTS (CC handle)	
INFORMATION ADDRESSABLE	
ADDRESS	
SUBJECT	
RE: OFFICE	
INTERNAL INFORMATION	
DATE	
CONTRACT NO.	
SALES/ORDER NO.	
PROGRAM DESIGNATION	
PROGRAM MANAGER NAME	
ORGN. NO.	
ZONE	
SPECIAL INSTRUCTIONS:	
<p>LEGAL COUNSEL'S INTERPRETATION IS THAT AGREEMENT DOES NOT COVER THIS KIND OF SUBCONTRACT WORK ACQUIRED IN U.S. TO OTHER U.S. FIRM. HOWEVER THIS IS A SMALL ONE-SHOT DEAL AND SHOULD NOT AFFECT THE LARGER AND LONGER TERM PROGRAM, WHICH IS NOW IN WORK AND OF COURSE, COVERED. ENTIRE SUBJECT WILL BE DISCUSSED FURTHER NEXT WEEK AND SUGGEST YOU HOLD OFF RESPONSE FOR FEW DAYS UNLESS OTHERWISE MANDATORY.</p> <p>GATES</p> <p>RECEIVED JUL 24 1974 GEORGE GORE</p> <p>DO NOT USE THIS AREA</p> <p>TELETYPE MACHINES HAVE A MAXIMUM OF 31 CHARACTERS PER LINE, INCLUDING SPACES.</p>	
<p>FOR ADDITIONAL PAGES, USE FORM 68-1984, CONTINUATION PAGE</p> <p>ORIGINATOR: C. R. Gates</p> <p>ORGN. NO. 200</p> <p>TO: CC</p> <p>PH. 281</p> <p>DATE 7-23-74</p> <p>AUTHORIZATION FOR TRANSMISSION AND CERTIFICATION THAT THE INFORMATION IS UNCLASSIFIED</p> <p>DATE: 7-23-74</p> <p>ORGN. NO. PH. DATE</p>	

OPIC: 3 Communications, Conty - Originator.

PART B - 4 b.

PAGE COMMUNICATIONS/GNPS CONSORTIUM

NORTHROP CORPORATION

Synopsis of INTS Program
Iran

Members of venture (or consortium) and
their respective share of contract value:

	<u>\$ Share</u>	<u>% Share</u>
Page (Northrop)	\$135,700,000(1)	60%
Siemens (Germany)	28,600,000	13
Nippon (Japan)	38,500,000	17
General Electric (Italy)	22,200,000	10
	<u>\$225,000,000</u>	<u>100%</u>

(1) Before any increase in value for cost overruns, etc., i.e.: Page \$60,000,000

Agents fees "agreed to" at 5% of contract, or \$11,250,000.

Members share fees in proportion to value, thus Page
share would equate to \$6,750,000.

Agent fee breakdown:	<u>Consortium total</u>
(Denreus (3%)) A Swiss Corp. Principals unknown	\$ 6,750,000
(Prince Chahram (1 1/2%)) Iran consultant	1,125,000
"Siemens" (1%)) (See below)	2,250,000
Uncommitted (1 1/2%)	<u>1,125,000</u>
	<u>\$11,250,000</u>

"Siemens" portion of fees. Funds are
transferred to a numbered Swiss bank
account purportedly Siemens controlled.
No further control is exercised by Page
(or the consortium). No support exists
as to ultimate recipient and amounts
paid are not claimed as a tax deduction.

Page Portion -
Not to be
Deducted for
Tax Purposes

Payments	<u>Total</u>	
1970	\$1,200,000	\$629,000
1971	850,000	515,000
Not yet disbursed	<u>200,000</u>	120,000
	<u>\$2,250,000</u>	

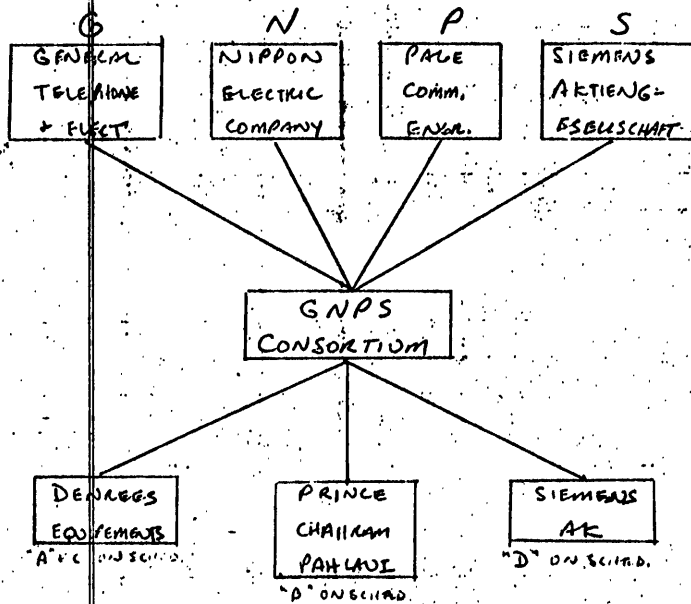
Information as to what the various agents did,
where the Siemens disbursements went, who was
responsible for approving the Page portion,
etc., has been sought from various sources
to date - i.e.: Waldschmitt, Kitchen,
Stegemann (of Welch & Morgan), Kaufman,
Campbell, Willson, Watts and Rath.
Additional interviews presently con-
templated include Jones, Miller, Hughes
(Page member in Iran), Jablonsky
(consortium manager) and additional
talks with Kitchen.

AE

FACE-IRON

Recd 7/19/74
Ltr. 8/1/74

390



NOTE: Payments are made to consortium on a participation % basis by G, N, P, + S individually to reimburse consortium for its payments to consultants A, B, C, + D. Based on 225MM contract value, payments will only be as follows:

(A+C)	DORRIS	\$ 6,750,000	<3% of 225 mm>
(B)	PAHLAVI	1,125,000	<2% of " "
(D)	SIMONS	<u>2,250,000</u>	<1% of " "
		\$ 10,125,000	

AFFIDAVIT

JEFFREY C. KITCHEN, being duly sworn, deposes and says as follows:

1. At all times herein mentioned, I was a vice president of Northrop Corporation with specific responsibility for international development programs in Iran. During this period I resided in Iran.

2. Commencing in calendar year 1969, Page Communications Engineers, Inc. ("Page"), a wholly-owned subsidiary of Northrop Corporation, joined in an international consortium to build, pursuant to contract, an integrated national telecommunications system for the Government of Iran. The contract (referred to as the "INTS Program") involves a \$225 million nationwide public telephone, telegraph, television and wideband data telecommunications network, including 500 communications stations connecting 60 major urban centers, hundreds of towns, villages and hamlets, and many industrial installations throughout Iran.

3. The international consortium to build this communications system was, and is, composed of General Telephone & Electronics International, Inc., Nippon Electric Company, Ltd., Page, and Siemens Aktiengesellschaft, and is commonly referred to as the "GNPS Consortium". The GNPS Consortium is not a partnership. It is a joint venture that was established as the vehicle to coordinate the efforts of the aforementioned companies, none of whom are related to each other, with respect to the INTS Program, with each company performing work in the area of its particular special capability. The function of the GNPS Consortium was, and is, to coordinate the efforts of its members in performing the contract, to act as the central agency for making the original proposal to the Iranian Government; to obtain the basic contract; to coordinate all details of the work; to arrange for payment; and generally to conduct all negotiations with the Iranian Government.

4. The expenses of performing the work are not shared in any fixed ratio by the members of the consortium. Each member is separately responsible for performing its share of the work, and its profit depends upon its efficiency in its performance of that portion of the work assigned to it. The administrative expenses of the GNPS Consortium in performing its ministerial functions are shared by the members of the GNPS Consortium in an agreed-upon ratio, generally dependent upon the share of the work allocated to each members. Such shared expenses include the commission referred to below.

EXHIBIT IV-E-4

5. The major share of the INTS Program, and therefore the major share of the expenses of the GNPS Consortium, are allocable to Page.

6. In 1969, during the course of the GNPS Consortium's preliminary work in preparing a proposal to the Iranian Government for this program, it became apparent to the GNPS Consortium, Page, and to me that the assistance of a firm expert in local business and economic conditions and procedures was absolutely necessary. Accordingly, I sought the advice of a number of Iranian and foreign businessmen as to what companies were knowledgeable and expert in these matters, had experience in programs of this complexity and magnitude, and might be available for employment for this purpose. The consensus of opinion was that Denrees et Equipments, S.A. ("Denrees") was extremely well qualified to perform such services for the GNPS Consortium. Denrees is a Swiss company engaged in a number of businesses, including commodity transactions, imports and exports of equipment, and the rendering of consulting services of the type described herein. Selection of Denrees was carefully evaluated by the GNPS Consortium, which collectively decided that it was necessary and appropriate to arrange with Denrees to assist the GNPS Consortium in undertaking the INTS Program. I do not know who owns Denrees.

7. The commission agreed to be paid to Denrees with respect to the services rendered by it was originally set at 2% of the GNPS Consortium's contract value with respect to the INTS Program, but this commission was subsequently raised to 3% when the contract value was increased and it was later determined that the services rendered were to be more extensive than originally contemplated.

8. One of the principal representatives of Denrees who assisted the GNPS Consortium pursuant to the afore-said agreement was Mr. Guy Bourquin, a Belgian citizen resident in Iran. Mr. Bourquin had evaluated, negotiated and arranged for the construction of a number of large industrial plants in Iran, together with all the pertinent facilities, including roads.

9. From late 1969 to the present Mr. Bourquin has been in continual consultations with the GNPS Consortium in connection with the INTS Program, and has rendered the following specific types of services, which I feel were of great value and were and are essential in connection with the performance of the work:

a. Based on his previous experience in dealing with many departments and ministries of the Iranian Government, he advised how best to convince the Iranian Government to implement the INTS Program on the basis of a single negotiated contract with the GNPS Consortium

rather than on the basis of open international competitive bidding. Open bidding on a project of this type is complicated, time consuming, costly, and generally unsatisfactory to all parties, including the Government. Such open bidding requires the preparation of detailed specifications by the Government, under circumstances where the Government may not have the expertise necessary to prepare such detailed specifications. Such specifications tend to be faulty and necessitate higher bids to cover contingencies. On the other hand, a negotiated contract covering the entire project, arrived at pursuant to discussions with a consortium of all major potential suppliers, allows the specifications to be developed jointly by the customer and the suppliers with a full exploration of the cost variances resulting from different specifications. If the contract negotiations are unsatisfactory, the Government may then go to a second source or to open bidding. The confidence of Iranian officials in Mr. Bourquin was a major factor in obtaining a negotiated contract, without which the project might well have been impossible.

b. The financing of the INTS Program was complicated by the fact that the ability of the Iranian Government to make payments under the contract was, and is, somewhat geared to its receipt of oil royalties. Mr. Bourquin was in a position to advise the GNPS Consortium of the Government's available revenues, and therefore placed the GNPS Consortium in a position so that its proposal, contract performance and requested payment schedule would be compatible with the Government's ability to pay for this major undertaking.

c. Mr. Bourquin assisted us in preparing a number of proposals, including many engineering design proposals. His prior experience in Iran enabled him to advise us as to the format, degree of detail presented, and the best method of obtaining prompt approval with respect to all such proposals to the Government.

d. Having had very considerable construction experience in Iran, Mr. Bourquin has also continually advised us as to whether or not local suppliers of goods and services were, or are, reliable and as to when we should use local, as contrasted to external, sources of supply.

10. In the opinion of all members of the GNPS Consortium, the aforementioned fee paid, or to be paid, to Denrees is reasonable based upon the services rendered, and in my opinion and in the judgment of each of the GNPS Consortium members, the fee was well within the norms of those paid in international business transactions by major companies experienced in obtaining and performing projects comparable to the INTS Program.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Executed at Los Angeles this 21st day of March, 1973.

Jeffrey C. Kitchen
Jeffrey C. Kitchen

Subscribed and sworn to before me this 21st day of March, 1973.



Sharon K. Hilaiel
(Notary Public)

AFFIDAVIT

D. A. L. HUGHES ("Hughes") and JOHN H. BAKER ("Baker"), having been duly sworn, depose and say as follows:

1. Hughes says that beginning in early 1970 and continuing until mid-1971 he represented Page Communications Engineers, Inc. ("Page") as a member of the Executive Committee of the GNPS Consortium and that during the same period he was, and continues to be, a Vice President of Page.
2. Baker states that during the same time period he was, and continues to be, the Treasurer and Director of Financial Services of Page.
3. The GNPS Consortium hereafter referred to as "GNPS" is composed of General Telephone & Electronics International, Inc., Nippon Electric Company, Ltd., Page, and Siemens, Aktiengesellschaft ("Siemens"), and was formed in 1969 for the purpose of building, pursuant to contract, an integrated national telecommunications system for the Government of Iran. This contract (referred to as the "INTS Program") involves the nationwide public telephone, telegraph, television and telecommunications network. The original contract value of the INTS Program was \$130 million, but this was subsequently increased to \$225 million. GNPS is not a partnership but the administrative expenses of GNPS in performing its ministerial functions are shared by its members in an agreed upon ratio, generally dependent upon the value of the share of the work allocated to each member. This ratio is adjusted from time to time as the scope and share of the work varies between the members.

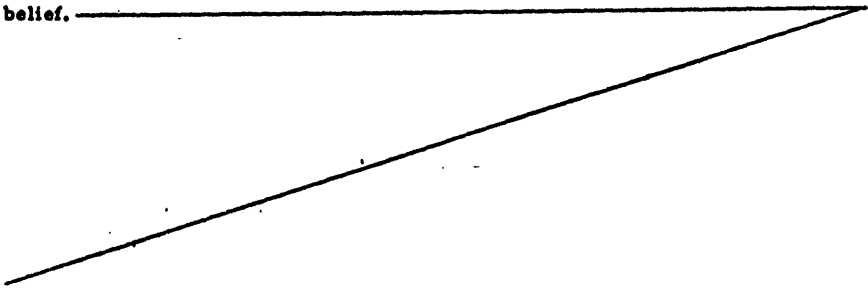
4. Hughes says that in May of 1971 at a meeting of the Executive Committee of the GNPS the representative of Siemens stated that, because the total contract value of the INTS Program had been increased from \$130 million to \$225 million, it would be necessary for Siemens to make certain payments in addition to certain payments already made by Siemens, all on behalf of GNPS. The Siemens representative stated that these payments already made by Siemens on behalf of GNPS amounted to \$1.2 million and that this amount would have to be increased to 1% of the total contract value, or \$2.25 million. The Executive Committee of GNPS agreed that Siemens should make such additional payments on behalf of GNPS and that each member of GNPS should contribute its share of the additional \$1.05 million.
5. Hughes says that on or about June 28, 1971, at the direction of the Executive Committee of GNPS he caused to be transferred \$850,000 from GNPS bank account in Geneva, Switzerland to a numbered account in the Banque Lombard, Odier and Cie., in Geneva, the number of the latter account having been furnished to him by a representative of Siemens. This \$850,000 was in part payment of the \$1.05 million mentioned above.
6. Baker says that he has seen the records of the GNPS bank account mentioned in Paragraph 5 above, and that such records indicate that on June 23, 1970 the sum of \$1.2 million was transferred from the said GNPS account to the same numbered account referred to in Paragraph 5. At that time Page's share of the GNPS expenses pursuant to the ratio described in Paragraph 3 above was 52.38%

and, therefore, on June 18, 1970 Page transferred from the Riggs Bank in the United States to the GNPS account in Switzerland the sum of \$628,560 as its share (52.38%) of the \$1.2 million.

7. Baker states that as of June 28, 1971 Page's share of the GNPS expenses as described in Paragraph 3 above was 60.666949% and, therefore, Page's share of the \$850,000 mentioned in Paragraph 5 was \$515,669. Page has transferred this amount to the GNPS bank account in connection with the reimbursement of this and other unrelated selling expenses.
8. Baker states that with respect to the actual and contemplated payments of \$2.25 million referred to in this affidavit the only amounts deducted by Page in determining its net income before taxes for financial statement purposes consist of the \$628,560 mentioned in Paragraph 6 and the \$515,669 mentioned in Paragraph 7.

Hughes declares under penalty of perjury that the statements contained in Paragraphs 1, 3, 4, and 5 above are true and correct to the best of his knowledge and belief.

Baker declares under penalty of perjury that the statements contained in Paragraphs 2, 3, 6, 7, and 8 are true and correct to the best of his knowledge and belief.



Executed at Vienna, Virginia this 18th day of January, 1973.

D. A. L. Hughes

D. A. L. Hughes

John H. Baker

John H. Baker

Subscribed and sworn to before me this 18th day of January,

1973.

Joyce A. Juchel

(Notary Public)

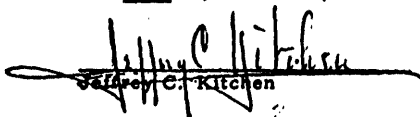
AFFIDAVIT

JEFFREY C. KITCHEN, having been duly sworn, deposes and says as follows:

1. I have read the attached affidavit of D. A. L. Hughes and John H. Baker.
2. As a consortium team leader of the GNPS Consortium referred to in the attached affidavit, I participated in negotiations pursuant to which it was agreed that the GNPS Consortium would make certain payments to individuals, whose identity I do not know, in the original amount of \$1.2 million. This amount was later raised to \$2.25 million. All such payments were to be made by the representatives of Siemens Aktiengesellschaft ("Siemens").
3. Although I have no personal knowledge of the facts recited in the attached affidavit, it is my belief that the payments referred to in paragraph 2 above are the same payments referred to in the attached affidavit and that therefore the numbered bank account referred to in the attached affidavit was under the control of Siemens.

I declare under penalty of perjury that the above statements are true and correct to the best of my knowledge and belief.

Executed at Los Angeles, California, this 26th day of January, 1973.


Jeffrey C. Kitchen

Subscribed and sworn to before me this 26th day of January, 1973.




(Notary Public)

EXHIBIT IV-E-7

Northrop Corporation
 Special Investigation
 Memo Re: discussions with Jeff Kitchen

Kell
 400

Three separate discussions were held with Jeff Kitchen during the field work of the week of August 5th. These were as follows:

Gray and Rollinger - 8/5/74 3:00 p.m.
 Gray/Blair/Falkenhagen - 8/8/74 9:30 a.m.
 Gray - 8/8/74 1:30 p.m.

Mechanics of the GNPS Consortium were discussed at these meetings - including Kitchen's role therein. Kitchen describes his role as being active in negotiating, arranging the proposal preparation, etc. Then said he was relatively inactive in the INTS contract for a period of time until operational problems started to become apparent, at which time he became more involved again. Addressees of the agents employed and of the other members of the Consortium were discussed - in order that confirmation requests could be sent. Kitchen knew of no reason why confirmations couldn't be sent - was concerned however about sending a confirmation into Iran with respect to payments to Prince Chahram. He is going to pursue for us the possibility of obtaining an address for the Prince outside the country. He will cable this to us. (Note - he was leaving for Iran on 8/8 for a trip through 8/20/74).

See Rollinger memo for specifics on discussions at 8/5/74 meeting re INTS. He described Denrees as very useful in landing the INTS contract, does not know who parties of Denrees are. The Prince's efforts were described in very general terms by Kitchen. As to Siemens, Kitchen maintained he does not know for what use these monies were used. He maintains that Siemens "convinced" the Consortium that the payments were necessary - and that he was not involved in these discussions - nor was he officially involved in the payment process itself. Said the first payments (\$1,200,000) were sold to the Consortium by Siemens very early in the program. He referred to two commitments at \$600,000 each. Apparently as the contract grew, Siemens said that they needed more too, they said that perhaps their "share" should be converted to a % of contract value - thus the 1% figure or \$2,250,000. In response to my question as to the unpaid portion of this \$2,250,000 (namely \$200,000) Kitchen said he did not know anything about it and that I was telling him something for the first time.

Kitchen believes the Consortium meeting at which the additional payments were discussed took place in Tokyo - and that probably the Northrop (Page) man who was present would have been D.A.L. Hughes. He is not sure just what was said by Siemens, and referred to some sort of agreement (probably not "official" in nature) wherein Siemens could not tell who got the monies, Siemens apparently agreeing not to reveal the recipients. Thus unanswered is what they might have said to the Consortium executive committee to convince them that they should spend another million without knowing to whom given or for that matter, without knowing who had already received the first million.

Kitchen surmised that this went to certain key exec's (mentioned department heads, etc.) in the Iranian government - but again said he didn't know.

As to who might have been the Northrop (Page) representative on the executive committee at various times, Kitchen would reconstruct as follows - though dates, etc. not firm:

Ralph May
Ed Debbas
D.A.L. Hughes
Jack Campbell

Discussed briefly the method in which Consortium operated. Jablonsky (a former Northrop man) apparently is the head mechanic - he is now, per Kitchen, a four company man and as such runs the administrative portion of the Consortium.

In response to a number of questions regarding specifics of the amounts scheduled M'd for tax purposes - Kitchen seemed very unfamiliar. In response to a question as to how Pages 60% share of fees was arrived at (such 60% fluctuating at times) Kitchen replied that Jack Campbell would be best able to answer. Did say that he thought at times that Page may have paid more-or-less than 60% based on needs at that time, and the cash available by the other members of the Consortium (i.e. Nippon was low on cash sometimes, and Page may have somewhat "advanced" money on their behalf).

In closing, Kitchen stated that he realizes there is an unexpended portion of agent fees available to be paid ($\frac{1}{2}$ of 1% or about a million dollars) but said he had not heard any discussions with respect to this for the past year or so.

See separate memo (in Corporate office workpapers) regarding discussion with Kitchen on ATS.

Shan
8/12/74

NORTHROP

Tax Counsel
 Corporate Director of Tax Administration
 Assistant Treasurer

22 March 1973

Mr. Maynard Gordy
 Internal Revenue Service
 300 North Los Angeles Street
 Los Angeles, California 90057

Dear Mr. Gordy:

In response to your request and based on information furnished to me by Mr. Jeffrey Kitchen, who during the times herein mentioned was a vice president of Northrop Corporation with specific responsibility for development programs in Iran, the following is a description of the business relationship between the "GNPS Consortium" and Denrees et Equipments, S. A.:

1. Commencing in calendar year 1969, Page Communications Engineers, Inc. ("Page"), a wholly-owned subsidiary of Northrop Corporation, joined in an international consortium to build, pursuant to contract, an integrated national telecommunications system for the Government of Iran. The contract (referred to as the "INTS Program") involves a \$225 million nationwide public telephone, telegraph, television and wideband data telecommunications network, including 500 communications stations connecting 60 major urban centers, hundreds of towns, villages and hamlets, and many industrial installations throughout Iran.

2. The international consortium to build this communications system was, and is, composed of General Telephone & Electronics International, Inc., Nippon Electric Company, Ltd., Page, and Siemens Aktiengesellschaft, and is commonly referred to as the "GNPS Consortium". The GNPS Consortium is not a partnership. It is a joint venture that was established as the vehicle to coordinate the efforts of the aforementioned companies, none of whom are related to each other,

EXHIBIT B

EXHIBIT IV-E-3

Mr. Maynard Gordy

22 March 1973

Page 2

with respect to the INTS Program, with each company performing work in the area of its particular special capability. The function of the GNPS Consortium was, and is, to coordinate the efforts of its members in performing the contract, to act as the central agency for making the original proposal to the Iranian Government; to obtain the basic contract; to coordinate all details of the work; to arrange for payment; and generally to conduct all negotiations with the Iranian Government.

3. The expenses of performing the work are not shared in any fixed ratio by the members of the consortium. Each member is separately responsible for performing its share of the work, and its profit depends upon its efficiency in its performance of that portion of the work assigned to it. The administrative expenses of the GNPS Consortium in performing its ministerial functions are shared by the members of the GNPS Consortium in an agreed-upon ratio, generally dependent upon the share of the work allocated to each members. Such shared expenses include the commission referred to below.

4. The major share of the INTS Program, and therefore the major share of the expenses of the GNPS Consortium, are allocable to Page.

5. In 1969, during the course of the GNPS Consortium's preliminary work in preparing a proposal to the Iranian Government for this program, it became apparent to the GNPS Consortium and to Page, that the assistance of a firm expert in local business and economic conditions and procedures was absolutely necessary. Accordingly, the Consortium sought the advice of a number of Iranian and foreign businessmen as to what companies were knowledgeable and expert in these matters, had experience in programs of this complexity and magnitude, and might be available for employment for this purpose. The consensus of opinion was that Denrees et Equipments, S. A. ("Denrees") was extremely well qualified to perform such services for the GNPS Consortium. Denrees is a Swiss company engaged in a number of businesses, including commodity transactions, imports and exports of equipment, and the rendering of consulting

Mr. Maynard Gordy

22 March 1973
Page 3

services of the type described herein. Selection of Denrees was carefully evaluated by the GNPS Consortium, which collectively decided that it was necessary and appropriate to arrange with Denrees to assist the GNPS Consortium in undertaking the INTS Program. We do not know who owns Denrees.

6. The commission agreed to be paid to Denrees with respect to the services rendered by it was originally set at 2% of the GNPS Consortium's contract value with respect to the INTS Program, but this commission was subsequently raised to 3% when the contract value was increased and it was later determined that the services rendered were to be more extensive than originally contemplated.

7. One of the principal representatives of Denrees who assisted the GNPS Consortium pursuant to the aforesaid agreement was Mr. Guy Bourquin, a Belgian citizen resident in Iran. Mr. Bourquin had evaluated, negotiated and arranged for the construction of a number of large industrial plants in Iran, together with all the pertinent facilities, including roads.

8. From late 1969 to the present Mr. Bourquin has been in continual consultations with the GNPS Consortium in connection with the INTS Program, and has rendered the following specific types of services, which we feel were of great value and were and are essential in connection with the performance of the work:

a. Based on his previous experience in dealing with many departments and ministries of the Iranian Government, he advised how best to convince the Iranian Government to implement the INTS Program on the basis of a single negotiated contract with the GNPS Consortium rather than on the basis of open international competitive bidding. Open bidding on a project of this type is complicated, time consuming, costly, and generally unsatisfactory to all parties, including the Government. Such open bidding requires the preparation of detailed specifications by the Government, under circumstances where the Government may not have the expertise necessary to prepare such detailed specifications. Such specifications tend to be faulty and necessitate higher bids to cover contingencies. On the other hand, a negotiated contract covering the entire project, arrived at pursuant to discussions with a consortium of all major potential suppliers,

Mr. Maynard Gordy

22 March 1973

Page 4

allows the specifications to be developed jointly by the customer and the suppliers with a full exploration of the cost variances resulting from different specifications. If the contract negotiations are unsatisfactory, the Government may then go to a second source or to open bidding. The confidence of Iranian officials in Mr. Bourquin was a major factor in obtaining a negotiated contract, without which the project might well have been impossible.

b. The financing of the INTS Program was complicated by the fact that the ability of the Iranian Government to make payments under the contract was, and is, somewhat geared to its receipt of oil royalties. Mr. Bourquin was in a position to advise the GNPS Consortium of the Government's available revenues, and therefore placed the GNPS Consortium in a position so that its proposal, contract performance and requested payment schedule would be compatible with the Government's ability to pay for this major undertaking.

c. Mr. Bourquin assisted us in preparing a number of proposals, including many engineering design proposals. His prior experience in Iran enabled him to advise us as to the format, degree of detail presented, and the best method of obtaining prompt approval with respect to all such proposals to the Government.

d. Having had very considerable construction experience in Iran, Mr. Bourquin has also continually advised us as to whether or not local suppliers of goods and services were, or are, reliable and as to when we should use local, as contrasted to external, sources of supply.

9. In the opinion of all members of the GNPS Consortium, the aforementioned fee paid, or to be paid, to Denrees is reasonable based upon the services rendered, and in our opinion and in the judgment of each of the GNPS Consortium members, the fee was well within the norms of those paid in international business transactions by major companies experienced in obtaining and performing projects comparable to the INTS Program.

Very truly yours,



Howard C. Rath, Jr.

Tax Counsel and

Corporate Director of Tax Administration

HGR:fg

NORTHROP

Tax Counsel
 Corporate Director of Tax Administration
 Assistant Treasurer

March 27, 1973

Mr. Maynard Gordy
 Internal Revenue Service
 P. O. Box 231
 Los Angeles, California 90053

Dear Mr. Gordy:

The purpose of this letter is to confirm certain information which has previously been communicated to you orally.

In connection with your audit of the consolidated income tax return of Northrop Corporation and subsidiaries for the fiscal year ended July 31, 1970, you are aware that one of Northrop's subsidiaries, Page Communications Engineers, Inc. ("Page"), reflected on line 5 of Schedule M-1 of that return a difference between book income and taxable income consisting of a book expense not deductible for tax purposes in the amount of \$628,560. This amount consisted of Page's share of certain expenses of a foreign joint venture, which expenses could not be substantiated for federal income tax purposes.

During the course of your audit of our 1970 fiscal year you asked that we amplify our reasons for not deducting Page's share of those expenses. In the course of our investigation conducted in response to your request we have ascertained that this foreign joint venture incurred additional expenses in our fiscal year ended July 31, 1971, which apparently cannot be substantiated for federal income tax purposes. As you know, the facts concerning these expenses are complicated, and until our recent investigation we had no reason to believe that any additional adjustment was necessary in our 1971 fiscal year.

However, we have now determined that Page's share of these 1971 expenses amounted to \$515,669, and therefore Page's taxable income as included in our consolidated federal income tax return for the fiscal year ended July 31, 1971, should be increased by that amount.

You are not responsible for the audit of that fiscal year, and the purpose of this letter is simply to document our voluntary disclosure of this required adjustment. I understand that the procedurally correct method of making this disclosure would be through the filing of an amended return

EXHIBIT IV-2-8

Mr. Maynard Gordy
Internal Revenue Service

March 27, 1973
Page 2

for that fiscal year. However, it seems to us that such a filing serves no useful purpose for the following reasons:

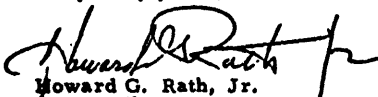
1. The Internal Revenue Service audit of our fiscal year 1971 is currently scheduled to commence in June of 1973.

2. If such an amended return were filed it would be necessary for us to remit additional taxes with respect to the \$515,669 additional income. As you know, certain large deficiencies which have been agreed upon and paid with respect to our fiscal years 1966 and 1967 reverse themselves in our fiscal years 1970 and 1971. Taking into account all reasonably foreseeable deficiencies agreed upon or likely to be agreed upon, including the above adjustment, it appears to us that we have substantially overpaid our federal income taxes for the latter two fiscal years, and that the taxes that would have to be remitted with such an amended return would simply increase this overpayment.

I will appreciate your transmitting this letter to the Internal Revenue Service personnel who will be responsible for the audit of our 1971 fiscal year.

Thank you for your cooperation.

Very truly yours,



Howard G. Rath, Jr.

HGR:ed

PC 15
A-E (5)
ERNST & ERNST

Call - INTB
WP's

408

LOS ANGELES

TO Northrop File

DATE August 29, 1974

FROM Larry D. Gray *L.D.G.*

SUBJECT Interview with Ross Miller
August 27, 1974

At one thirty this date, myself and Olaf Falkenhagen of PW met with Ross Miller for purposes of the formal interview as part of the special investigation. Our primary reason for talking to Miller was in connection with the INTS contract in Iran, also with respect to a couple of cash funds which were paid at his direction and which he had earlier disclosed in his Questionnaire to us. The following will highlight my observations from the interview.

We first asked Miller to give us a rundown on his involvement with INTS from inception. Miller stated that in June '72 it became apparent that there was a management problem in Iran, and he was asked to go on very short notice to Iran on behalf of Northrop. He stated that before this time he had only been in Iran some two or three days - a stopover visit on the way to another foreign country. He stated he left on such short notice that his wife had to complete the management of the construction of a new home they had just begun in Palos Verdes. Clearly, he had not expected this assignment to come up. His briefing before leaving for Iran consisted of a presentation by J. Waldschmitt from Page, which showed that things were in not too bad a shape. (This presentation was made available to us following the meeting for a quick review. It did not disclose any matters irrelevant to this special investigation).

He said upon arriving in Iran, he met first with Charlie Pope and Eddie Debbas - both Page employees who had been in the country for a substantial period of time. Both these men were apparently thoroughly disgusted with the program, and in fact, quit the day of Miller's arrival. He stated their main disillusionment was with the absentee management, thus he was able a couple of days later to convince them to stay by realigning the management team, reaffirming to them that it was really collectively the three of theirs responsibility now, thus the two stayed on and worked with Miller. Miller said he soon learned that there was indeed substantial problems on behalf of Page, but that there were substantial customer problems as well. Over the next few months, he worked at getting his feet on the ground, and brought in many new people under him, really practically turning over management of the contract.

He stated that once he got to know the job and some of the unusual matters with respect to doing work in Iran, he came to the conclusion that the customer problems were basically because they operated in an environment of fear. They would not amend the contracts or sign any acceptances or sign hardly any thing, with the fear that they would be punished if something was wrong. Thus it is much better to do nothing under those situations. He stated that he began in the fall of '72 to document the customer problems, and went to the customer in April of 1973 with the proposal that the contract be converted from a fixed price to a cost type contract. This was turned down, but there ensued additional discussions which included among other things an admission by Miller that in fact Page had made many mistakes. This apparently got the customers "sympathy" or attention to some degree, and he was thus able to turn the negotiations to fruitful

purposes. He stated he presented a paper on the reasons for the cost overrun (this paper being equivalent to a claim, though not called that) which was presented to the government of Iran in approximately June 1973. This paper basically said that Page just could not control the costs inasmuch as much of the effort and site availability was directly the responsibility of the government. Page apparently told the government in this June '73 meeting, that they would have to stop work inasmuch as they were out of money and they just could not proceed on this basis. This apparently got the attention, and shortly thereafter the \$60,000,000 advance agreement or addendum was agreed upon. Miller stated during these discussions with respect to the \$60,000,000, he was working directly with the Shah's representative Asphi. Asphi was apparently working directly at the Shah's instructions, and Miller stated that these negotiations were primarily between the two of them.

We asked about Kitchen's role in Iran, Miller stated that he was not directly involved in these negotiations in which he was conducting, but that he looked to Kitchen for information and for his excellent public relations work. He is apparently very highly regarded in Iran, has excellent contacts, and is very effective at gathering intelligence. We talked briefly about the management of the consortium. Miller recounted how Jablonski was the more or less manager, and that his boss was the executive committee (more recently called the management board). Miller stated that he in fact represented Page or Northrop on the management board since his arrival in Iran. He was not sure as to who all had replaced him at this leadership role. He stated the management board kept very good minutes of all proceedings, but that they soon learned that with the proviso in the contract that all four members of the consortium must approve all actions, that very little was getting done. Apparently then in February of 1973, the chief executives of all of the four members of the consortium met in Los Angeles. Among other things concluded here was that each of the four should pursue independently certain matters without necessarily working through the consortium. It is under this general direction that Page aggressively then pursued the \$60,000,000 contract advance.

We inquired as to Waldschmitt's role in Iran, Miller just stated that his path crossed very little with Joe, Joe just accompanied him to Iran initially, introduced him to their own people, and left almost immediately. Miller went on to state, candidly, that they felt perhaps that part of the problem in Iran had been Waldschmitt because he had taken a very hard line stand with the Iranians. Miller stated that shortly after his arrival in Iran, he received a couple of phone calls from Waldschmitt wanting a status report, but that Miller more or less stated that he just did not have the time or the inclination to worry about status reports of construction inasmuch as the problem really seemed to be a management problem rather than a construction problem. Miller stated then that he had not talked to Waldschmitt since July 1972.

As to the role of Debbas, Miller stated that he had the title of Chief Negotiator for the consortium, was a well liked and trusted man in Iran, and did much work on behalf of all the consortium members. Miller did state that Debbas in fact was in most of the executive board meeting, after he was there he sat in these as the role of chief negotiator, but that he might have actually represented Page prior to Miller's arrival in Iran on the board. In response to a question as to what was Don Hughes's role, Miller stated that he preceded Debbas by quite a long period of time, and he was really not sure exactly, the Hughes's role was or had been. In response to a question as to how much contact he had with Baker in Iran, Miller stated very little, that he had just made a visit to Iran shortly after Miller's arrival, wherein they discussed certain accounting matters with respect to the consolidation of Iran figures at Page in Vienna.

Some of the gentlemen that Miller acknowledged bringing on board that served very active roles, and are continuing to serve active roles, are Penrod who became the controller, Manzella who became the VP of contracts, and several others. He acknowledged also hiring an in-house counsel in Iran, and using many other Northrop people on small one-shot assignments. He stated he was actually very enthused over the outcome of the INTS contract.

Our discussions then turned to his general knowledge of the role of the agent in Iran. Miller's reaction was that he knew very little specifically, that he was basically opposed to the agency fee principle, but that he really thought it was a way of life in that country. He recounted later in our discussion that he was at a meeting wherein the Prime Minister stated that he wanted to get rid of the agency fee problem, but that he really did not see how they could actually do this. He stated they do in fact make this statement publicly, but he would question their real desires. Given this general background, he proceeded to say again that he had very little insight into the agent fee matters with respect to the INTS contract. He stated there has been no discussions with agents with respect to a possible payment of an agency fee on the \$60,000,000 additional value. He stated that the first time he had seen the Denrees agency agreement was approximately a month or so ago when a copy of it came to his attention being a duplicate of some information that had been provided to us in response to a request in conjunction with the special investigation. He stated he has never met any of the agents receiving payments on the INTS contract, had never heard of Prince Charam until mentioned by us. He said he had heard the rumours recently with respect to the payments made by Siemens on behalf of the consortium, but he had no insight or information relative to the tax treatment or the other problems associated with these payments. He stated he had never seen the affidavits and data put together by Howard Rath with respect to these payments. In response to a question as to what benefits the agents provided, he said his basic understanding would be that they were very useful in acquiring business, defining scope, and the general work outline. He stated he would assume that much of the agents fees with respect to INTS, grew as the basic contract grew from a unit price contract to the \$225,000,000 fixed price contract. He was sure the agents were probably very active during this stage of the INTS contract, but that they were not active there now. He stated that he had never seen any of these agents, thus he could not imagine what they might be doing now to have earned their money. We stated we had heard ~~we heard~~ them defined, sometimes as expeditors, but he said with respect to the INTS contract in Iran, they are not acting in this capacity. Again he stated that he had been told recently of the Siemens payments, and he assumed that they were made for the benefit of the consortium. He stated that he would imagine that Jeff Kitchen would have to be the most knowledgeable with respect to these agency payments. He would assume that has been more or less his responsibility. He also said that perhaps Jack Campbell might have information in this regard. He went on to state that he had been personally associated with one payment in 1973. I asked if this was to the Prince, he said he did not know who the recipient was, only that it was discussed at a consortium meeting and agreed that the payment was owing and should be made. Thus he sent a cable to Northrop or Page asking them to advance the monies to the consortium bank account from which the payment was to be made. He stated Kitchen had asked him if it was O.K. to make the payment, but that he did not know why it was due just that it appeared to be an agreement entered into prior to his tenure. He stated he did think this was all the payments that were due on the contracts, when I asked him about the apparent withhold on the Siemens' portion and the half a percent that has not as yet been spent, he stated he had no knowledge of this and that it somewhat surprised him.

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He stated that the consortium members had been discussing somewhat whether or not the \$60,000,000 added value on Page meant that perhaps Page should be sharing more costs. The thrust of his discussions had to do with the general overhead type costs of the consortium, and in response to a question he stated that he assumed they were discussing these fees on a perspective basis - not with respect to prior amounts which might have already been paid and settled under the old sharing percentage. In response to a question as to whether this included the agency fee, he said he really did not know what the agreement was on the agency fees, he just knew that they had been shared on the same percentage in the past. He stated that fees had never been discussed in his presence with respect to the current sharing discussions. We asked about his contact with Ed Steggman, and he said he had been there on numerous occasions, and was in fact very much aware of the contract terms, etc. He says any time he has a question as to the consortium or the contract, he calls upon Steggman. He stated that he realized they must have in-country legal assistance, thus a Jim Gardner was hired through the efforts of Gore and sent to work full time in Iran. I asked if he knew Aghayan. He said that yes he did, and that Aghayan performed many in-country legal services. Aghayan would then interface with Jim Gardner. He stated Aghayan was highly regarded and a very influential person in Iran. He would believe his best services are through his contacts rather than his legal actions. He did state however that Aghayan had a ~~former~~ assistant who worked full time on Page matters. These matters basically have to do apparently with sub-contract disputes, small legal disputes in-country, etc. He stated that Aghayan had never been in a prime contract relationship on the INTS contract. He said also that Aghayan acted somewhat as a mediator on any questions that Whinney-Murray E&E might raise during the course of an audit. He stated Aghayan does have a contract through Corporate office, and that fees are reviewed and agreed to periodically - probably on an annual basis.

We discussed certain lump sum payments that we had observed going to Aghayan. Miller stated that he learned upon arrival, that in fact Aghayan had been making certain types of payments, that he didn't know to whom, but that he implied it was to government employees. He said he felt this practice very distasteful, and attempted to put a stop to it. He said he would not make any payments to Aghayan for some two or three months after his arrival - he kept putting him off - but finally agreed to make one more payment which would be the last. He stated that he would assume this payment would have been in late 1972, and he would guess the amount to be in the neighborhood of \$15,000 (I mentioned to him that we had seen two payments that we were aware of, one for \$50,000 and one for \$16,000). As stated, he was only familiar with the one, and apparently this would be the \$16,000 item set forth above. He again stated that he presumed it was going to government employees, but that he really didn't want to know the specifics, and was just told by his subordinates that it had to be done. He stated that Aghayan does perform many very valuable services in Iran, and he is compensated normally on a level of effort. He stated that based on a recent review of his, he has recommended that the Aghayan contract be increased - he would assume there has been at least two increases since his arrival in Iran. (See later in this memo for additional discussions on Aghayan with respect to certain payments from the Miller cash fund.)

To wrap up the discussion on INTS, some general discussions ensued with respect to Miller's feeling on the ultimate disposition of the INTS contract.

He stated he was not too aware as to any major problems being incurred by any other members of the consortium, although Nippon may have some basis of claim inasmuch as they have been held up along with Page since certain of their work is interrelated. He believes Siemens and General Electric were pretty well taken care of because they just delivered equipment, received their monies under letters of credit, etc. He stated that the job will be pretty well done by December '74, although there will be some 20 or 25 sites of a problem nature which will carry over into the first three months of 1975. Following that there will be minimal operations for a period of time ranging for a period of six to twelve months, thus that by late 1975 all work will be really done. He said that they will start prior to then, but will consummate he believes shortly after the completion of the work the final contract negotiations. He is convinced that these negotiations will be fruitful, in that they are doing good work thus the Iranians will have the system they want, Page will be able to prove they spent their money accordingly, Page will own up to certain errors and agree to absorb part of the overrun thus take a very small fee, but that everybody will come out in the end. He is convinced that these way of not addressing themselves to these problems until the end will work out in the long run. He gave us a brief description as to what the INTS contract will cover, it basically linking some 56 major cities in Iran together under a telephone and TV network. This network also has some military or defense applications; although it is basically commercial in nature. These 56 cities comprise the population of approximately 8 million out of a 31 million total Iranian population. Apparently the long range plans of the Shah are to later add this telephone system into the smaller villages and hamlets in order that the total country will be linked together. In response to a question as to whether or not Page will participate in this work, Miller says only on their terms. He stated that knowing what they know, their price will have to be very high to guarantee a profit - thus probably they will be underbid by someone who is anxious to get into the country and establish a threshold. In other words, Page has somewhat learned their lesson and will rely upon this experience in future bidding. The sequence of events in the event that negotiations aren't fruitful will be arbitration in Paris, and Miller is certain that the Iranian government will not resort to this.

We asked if Miller had ever met Kim Roosevelt, he stated yes, and that Kim was a very influential person in country. He stated he came into the country perhaps two or three times since Miller has been there, usually made his rounds talking to his friends and acquaintances. He would then report back to Miller giving him a rundown on current discussions in the government, present feelings, etc. Miller stated he never really went with Roosevelt when he made these various trips, but that Roosevelt very often accompanied Jones in his visits in country. Miller went on to state that Jones had only been in Iran approximately two or three times, in the past couple of years, as far as he is aware.

We asked if Miller had ever heard of Aviation Technical Services or Economic and Development Corp. He replied that he had not heard of either. In response to further questions, Miller stated he had never heard of DeFrancis or Weisbrod. With respect to Savy, Miller said he first heard the name Savy approximately 3 weeks or so ago from George Gore. He stated he had not seen an article which had apparently been in the paper disclosing the name Savy - but he had certainly heard about him internally within the past couple of weeks.

Our discussions then turned to the \$30,000 cash fund that Miller maintained in Iran - as set forth in detail in his earlier Questionnaire. Miller stated that upon his arrival, he found out that certain types of small payments were being made, he understands basically these were covered through the use of phony expense reports, claiming the services were for marketing efforts. He said he did not like this, but that soon became convinced that certain of these payments had to be made, thus he and Pope decided to bring some funds in to be used for this purpose. He stated they wanted the money to originate outside of the government so there would be no tracks in the country as to its origination. He thus asked for \$30,000 and he himself carried the cash into Iran. In response to a question as to whether or not he knew carrying the cash in was illegal, Miller replied that he has subsequently found out that it was, but that he did not know it was illegal at the time. As to how they arrived at \$30,000, Miller said it was just a wild guess - he knew they needed something but did not know how much. He went on to state that he thought Pope had come up with the \$30,000 estimate, but that clearly it was just a wild guess on the front end. He went on to state that once he got the monies in country, he adopted a much harder stand, and attempted to not make any more payments that were not absolutely necessary, thus some amounts were in fact left over and were returned to the treasury.

We then discussed each of the various disbursements made from the funds, as set forth in our Questionnaire copy. I have made notations on the copies contained in the file with the Questionnaire, generally describing what the disbursement was for, who the signatures were for approval, etc. I will not go into any detail ^{of} along those disbursements in this memo, with the exception of the larger payment which we discussed in considerable detail. This had to do with some \$8,800 (two at \$4,400 each) made to satisfy some tax liabilities. Miller stated that this came about as follows. He stated he was informed by Whinney Murray E&E, apparently during the course of an audit, that they had discovered that INTS had a tax liability owing. Whinney Murray apparently went on to state that they had been in contact with the taxing authorities and had been told by such authorities, that they would accept a settlement of some 50% of the liability. This 50% was to be paid in two pieces - 25% to the taxing authority and 25% under the table to the government officials involved. Thus it was really somewhat of a blackmail. Miller stated he got Aghayan involved in these discussions, and he in fact asked Whinney Murray what would happen if he called and reported this to the tax officials' superiors, they stated that about all that would happen would be that this person involved would be transferred to another office, but that it was pretty well a way of life at the tax assessors office. Miller stated he then asked what they would recommend or what other companies did, and the answer he received was that probably 75% of the American companies would just pay this settlement and be done with it. In response to a question as to what this tax really was for, Miller was not exactly sure, apparently it was some sort of a local tax of some fashion. Regardless, he then chose to go ahead and accept the settlement offer, thus as the two installments of the tax were paid in April 1973, a corresponding amount was paid in cash out of the funds that he held - such cash going to the collectors involved.

I mentioned to Miller that we had observed that he received an even \$15,000 in mid-1972, the voucher saying that it was for reimbursement for moving expenses. Miller said that was exactly what that expenditure was for, and in response to my question stated definitely no, it was not to generate an additional cash fund to be used in country. As to the use of cash in country, Miller stated that he definitely would not try to get cash into the country the way he had the first time, and that he found the whole operation very distasteful, thus attempted to squelch this type of activity as best he could. He did go on to state that cash is a very much used media of exchange in the country, inasmuch as it is illegal in Iran apparently to mail cash, and it is also very difficult to cash a check

at a bank. Thus very often they pay many types of expenses in cash in the normal course of the daily operations. He stated for example that there was probably some million dollars in petty cash funds scattered around Iran on behalf of INTS.

Our closing discussions then discussed again briefly the question of agent payments in Iran. Again Miller stated how he did not like the principle, but felt it would be a long time disappearing. He stated that he did feel that the Shah was anxious to clean up some of this, as evidenced by some of his recent decisions in this regard. He referred to the recent (approximately the last year) decision by the Shah that his government officials could not work for the government and maintain an agency business. He stated that he knew at least one high government official had resigned when this proclamation came out, apparently because he could make much more in his agency business than he could in his government role. But he said it is so bad in the country, he has even heard rumours that the Prime Minister actually did work for RCA - who was the chief competitor for the INTS contract against Page. Perhaps this was the reason why the Prime Minister was so much against Page's work on INTS, maybe thinking that had RCA got it he would have received substantial fees in the process. Regardless, Miller thinks that the agency fee is a very important part of their society in Iran.

With that the meeting adjourned at approximately 3:45 p.m.

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E&E

NORTHROP CORPORATION

AUGUST 6 1974 INTERVIEW OF JOHN B. (JACK) CAMPBELL
NORTHROP CORPORATE CONTROLLER

1. Pursuant to the special investigatory program being followed by Ernst & Ernst (E & E) with assistance from Price Waterhouse & Co. (PW & Co.) (as set forth in their respective engagement letters dated June 10, 1974 to Mr. Clair L. Peck, Jr., Chairman of the Northrop Corporation Audit Committee) an interview was held on August 6, 1974 with John B. (Jack) Campbell (JBC), Corporate Controller, to obtain additional information with respect to circumstances, transactions and exhibits included in JBC's narration submitted to E & E. Those present during the interview were E. Raymond Crim (ERC), Partner, E & E, Michael Klein (MK), Partner, Wilmer, Cutler & Pickering, and Michael H. Francisco (MHF), Audit Manager, PW & Co.

2. Prior to the interview, ERC, MK and MHF briefly discussed which matters should be included in the interview. As in previous interviews, ERC would participate as the primary interrogator, but encouraged any questions from MK and MHF.

3. The following memorandum constitutes a summarization of the notes prepared by MHF during the approximately 4-1/2 hour interview which began at 9:45 a.m. and ended at 3:45 p.m. in ERC's private office at the Northrop corporate headquarters in Century City, California:

4. The interview began with discussions concerning the Iranian "INTS" contract undertaken by Page Communications Engineers (Page), a wholly-owned subsidiary of Northrop. JBC opened the discussion by summarizing his Northrop background which included 13 years in various financial and accounting capacities at Page where he had ultimately been appointed Vice President of Finance. In September of 1972, JBC was promoted to Northrop Corporate Controller. Thus, JBC occupied positions where he had the opportunity to obtain information on the "INTS" contract. JBC stated that he had on occasion visited Iran as part of his responsibilities.

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5. As background, JBC indicated that prior to the "INTS" contract, Page had been in Iran for several years and had achieved considerable success with an earth satellite communication system which substantially improved the long-distance telephone communications in Iran. Page's chief competitors were General Telephone of Italy (Gen Tel), Nippon of Japan (Nippon) and Siemens of Switzerland. When the concept of the military and civil communications network was initially formed, the representatives of all four companies decided to band together as GNPS (Gen Tel, Nippon, Page and Siemens) to propose on the work.

6. Various modes of operation were considered, e.g., partnership, joint venture etc. and the consortium approach was chosen. The consortium is not a legal entity; therefore, each member does business directly with the Iranian government. Under the contract which is now referred to as "INTS" - Integrated National Telecommunications System, each member contributed the following:

- Gen Tel - radio transmitters and receivers, but no installation
- Nippon - radio transmitters and receivers including installation
- Siemens - some radio, all power generators plus installation
- Page - primarily provided the towers, performed civil work such as roads, ran a training school, maintained and operated system, installed the Siemens and Gen Tel equipment, plus miscellaneous equipment, provided administrative support to other members.

Page's portion of the consortium is approximately 60%. The contract initially was valued at \$120,000,000 and increased to \$275,000,000. Subsequently, the size of the contract was reduced to roundly \$225,000,000 (as of December 1972).

7. Before discussing the agent's commission on "INTS", the conversation turned to the concept of commissions in general. JBC stated that commissions are a normal cost of business throughout

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the world. For example, a commission was paid to Prince Charam in connection with the Earth-Satellite contract. In exchange, the Prince provided marketing information. ERC asked why a commission was necessary. For example, the Japanese usually do not pay commissions in the U.S. (although, they might need the services of a public relations firm). JBC stated that commissions are necessary in Iran and further stated that Nippon undoubtedly also paid commissions in Iran.

8. Then ERC outlined a similar example of business commission requirements in the U.S. ERC stated that in New York City it is well known that graft and bribes are an integrated part of "doing business" in the construction industry. At the opposite end of the scale, no graft is paid in Atlanta, Georgia where it is considered inappropriate.

9. MHF then commented that the purpose of our questions is not to specifically judge the necessity of commission payments, but rather to determine how, why and what the funds were used for. JBC then stated that in the case of GNPS, the executive committee decided that it was acceptable to pay a total of 5% of the contract price to obtain financing, political information and technological information. JBC stated that Jeff Kitchen was assigned the responsibility of assessing what percentage would be acceptable in order to be successful in obtaining and completing the contract. Although JBC did not know how the entire 5% was spent, 2% went to Dunrees and 1/2% went to Prince Charam. To the best of JBC's recollection, the remainder was paid to a Swiss numbered bank account presumably belonging to Siemens.

10. JBC stated that the 2-1/2% (Dunrees and Charam payments) were documented but the Siemens payment was not. Therefore, when the corporate tax department incorporated the Page tax information in the corporate return, it was decided that the \$500,000 in 1971 should be claimed as an income tax deduction and therefore included in Schedule M. Specifically, Howard Rath, who was conservatively inclined, apparently made this decision. The total amounts shown on Schedule M were \$1,200,000 which represented 60% of \$2,000,000 ultimately contributed by the consortium.

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11. ERC then asked, "What do you suspect with the use of the money? Was this money spent to pay somebody in the New York sense or the Atlanta sense?"

12. JBC stated, "I asked what the money was used for, but they wouldn't tell me how it was spent and I don't know how it was spent."

13. MK then commented, "Do people just sit around and surmise with smiles on their faces when this type of payment is discussed?"

14. JBC, "I really don't know, but I suppose that might occur."

15. MK asked, "Did the Board (of Directors) approve the "INTS" undertaking?"

16. JBC answered, "No, the Board does not know."

17. The conversation then touched on several background matters. JBC stated that the interviewers have to keep in mind that the proposal takes years to negotiate. As a matter of fact, at the last minute the consortium had to promise to make a \$100,000 payment to an Iranian school before the contract was signed.

18. MHF then commented as to whether the Company had received value for the commission of say \$2,000,000 since this is a very large amount. JBC stated that really the amounts involved were 5% of \$225,000,000 or roundly \$12,000,000. However, he couldn't measure whether they had received value, but, "they did get the contract."

19. Then JBC stated that there is a new contract in Lybia called "LADS" - "Lybia Air Defense System" which more than likely will involve a larger amount of money than "INTS". Thus, even with hindsight on "INTS", the Company is going to get involved with a large commission again.

20. Getting back to "INTS" for a moment, JBC stated that to the best of his knowledge none of the signers on the numbered Swiss bank account were Page individuals. However, it was later learned that (?) Hughes (a Page employee) is a signatory on the consortium bank account.

21. ERC asked, "Why did Siemens decide to use a numbered Swiss bank account?"

22. JBC stated, "I don't know, but I guess to protect the secrecy of transactions,"

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23. ERC stated that in connection with the Schedule M questions, Gordon Stine, E & E tax partner assigned to Northrop, was "unclear with respect to the deductions." JBC stated that the corporate returns are "open" for 1964 to the present. The IRS is expected to issue a letter very soon closing all years through 1970. However, he doesn't think the IRS evaluated the Savy and DeFrancis transactions in their audit work. Consequently, it is not improbable that the IRS will certainly review the consultant fees before clearing the open years as a result of the publicity given to the Northrop situation.

24. The questioning by ERC next turned to a discussion of the \$30,000 paid to Mr. Ross Miller, Group Vice President in charge of Hallicrafters, Page and the electronics group. According to JBC, the money was used for "in-country expenses" in connection with the "INTS" contract. The documentation for this expense has been included as Exhibit C to JBC's narration. ERC asked JBC to expand on what constituted "in-country expenses". JBC indicated that the in-country expenses he assumed were used to expedite vouchers. For example, JBC indicated that it might take as many as 56 names in order to get a voucher processed.

25. The conversation then turned to why it was necessary to have 56 people, for example, approve a voucher. JBC stated that it is known that threats are made in the very high levels of the government on the safety of an individual who would "erroneously" approve completion of the work when, in fact, it did not meet every technical requirement. It is rumored that a general in Iran stated that you and your family will go to jail if the technical requirements are not met in every detail. With this kind of an attitude, it is no wonder that individuals will be very reluctant to take the responsibility for approving payments, JBC commented.

26. JBC stated that the background on this particular payment was that Ross Miller was sent to Iran by Corporate to "straighten out" the contract problems encountered by the Company. According to JBC, he did a very fine job and, on occasion, would return to the United States to discuss and resolve the problems that he had encountered and on a particular trip in December 1972, Ross Miller informed JBC

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that he needed \$30,000. Because JBC was familiar with the Iranian problems, because of his prior experience at Page, he approved the expenditure. A check was drawn to Northrop Corporation on December 22, 1972 on the Wells Fargo Bank Account. The money was obtained in cash in 100 and 50 dollar bills. As it turns out, all of the funds were not used and an imprest account was ultimately set up in the amount of \$18,752. For accounting purposes, the \$30,000 was shown as a direct cost charged through the intercompany account to Page. In addition, JBC informed us that the \$30,000 was shown as a Schedule M item which was not deducted in the Company's 1972 tax return.

27. ERC asked, "Do you know of any other disbursements like the \$30,000?"

28. JBC answered, "No."

29. The conversation then turned to William Savy and his consulting arrangements with Northrop. ERC opened the questioning by asking JBC, "Do you know Savy?"

30. JBC responded, "I didn't know the name until just recently. It does not come under my responsibilities. Walter Nighkirk, Director of International Finance and Administration who has duties which might be comparable to the cashier, reports directly to James Willson. Nighkirk handled the disbursements with respect to Savy."

31. ERC, "Is this an acceptable procedure?"

32. JBC replied, "Well, I think accounting should have more control."

33. ERC asked, "Do you consider Euradvice and Savy to be one and the same?"

34. JBC responded, "Euradvice, Savy and Wilcox Electric, as far as I'm concerned, are one and the same."

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As a matter of fact, we have an affidavit given to the DCAA with respect to the legitimacy of Savy and his companies.

35. ERC asked whether or not that affidavit was the same one given to the IRS.

36. JBC responded, "I'm not sure whether or not a copy was given to the IRS, but it is possible."

37. The conversation then touched briefly on the background prior to JBC's taking over the responsibilities of corporate control. JBC indicated that prior to his arrival, Al Johns had been Director of Accounting and Walter Nighkirk had disbursements responsibilities. Consequently, the job descriptions and assignments were probably the cause for Nighkirk retaining the disbursement responsibilities with respect to the Savy payments. Note: In the afternoon conversations, this matter was more fully discussed and see the comments later in this memorandum regarding the clarification of this.

38. ERC asked whether or not the additional \$120,000 paid Savy or his companies would show up in Jones' budget since the company is very budget conscious and any expenditures not budgeted have to be approved. JBC indicated that the extra amounts paid to Savy probably would show up as a variance in Jones' budget.

39. ERC, "Do you know anything at all about the money coming back?"

40. JBC responded that he "could not make it reconcile". JBC indicated that he doesn't know whether all of the money was returned. ERC then quoted from a copy of the 10K which presumably stated that \$144,000 had been received by a European consultant. The \$144,000 was not detailed in the 10K, but it was comprised of \$30,000 in cash at yearend plus \$64,000 cash at yearend plus a \$50,000 payment made by Jones. The \$6,000 making up the balance of the \$150,000 had not been traced at this particular time.

41. MHF asked what information did Jim Willson give Jack Campbell with respect to the yearend return of cash funds from Savy. The question arises, according to MHF, because in Exhibit K to JBC's

CONFIDENTIAL

narration there is a note on an interoffice memorandum dated January 10, 1973 which deals with the cash in transit "I would like the attached check, which is dated December 29, 1972, to be recorded as a transaction in 1972, with the cash being treated as in transit. This amount will constitute a reduction in expenses for last year". J. D. Willson. At the bottom there is a note to Jack Campbell. "Please see me for details." J. D. W.

42. JBC stated that the explanation had to do with the accounting treatment for the \$94,000. The conversation did not focus on what caused the refund and it did not occur to JBC to ask about the refund.

43. ERC asked, "Why didn't you question it?"

44. JBC responded, "There was nothing suspicious."

45. The conversation then turned to a \$16,000 payment made to Chahine Aghayan. This question was asked by ERC, or this matter was raised by ERC because it is included as Exhibit A to JBC's narration. The check was made payable on January 5, 1973. ERC asked, "Why did you include this check as a matter to be included in our investigation?"

46. JBC stated that the check was included because the questionnaire given to JBC asked about any unusual payments. JBC stated that this was unusual because it had to do with the INTS contract. In addition, it occurred at about the same time of the \$30,000 payment and there was no invoice for the amount.

47. ERC asked, "Well, what makes it unusual?"

48. JBC responded, "Well, it really isn't unusual. It's a retainer paid by the Corporate office and other sums had been paid by Northrop from Washington and in Iran to Dr. Aghayan. JBC stated that they had several labor relations problems and other legal problems on the "INTS" contract and consequently, the services of Dr. Aghayan were used to rectify the situation. There was no other reason given for the payment being listed as Exhibit A. However, it should be noted that the costs were transferred through the intercompany account to Page and are not included as legal fees at the Corporate office.

CONFIDENTIAL

49. At this point, the interview was adjourned until after lunch. Before JBC returned from his lunch to continue the interview, ERC, MK and MHF discussed the results of the interview so far. ERC was particularly interested in why JBC had included the \$16,000 as Exhibit A, the first Exhibit to his narration. MHF was interested in knowing more about the \$1,200,000 in payments to Siemens and why JBC approved the payment of the \$1,200,000 when there was no documentation.

50. The interview continued after lunch with the first issue being discussed relating to the \$16,000 to Dr. Aghayan. Basically, JBC reiterated his comments just before lunch that he included it because Ross Miller had asked that a check be drawn to Aghayan because the company owed him money. It was unusual because it was made by the Corporate office rather than by Page itself.

51. ERC asked, "Well, what is your policy on invoices? There was no invoice on this particular disbursement."

52. JBC, "Well, we don't get invoices on the consultants."

53. ERC, "Well, you have a Corporate policy, don't you?"

54. JBC, "Normally, there is an invoice, but in certain instances there are not. We don't get invoices on consultants."

55. ERC, "As a matter of practice, don't you think you should have invoices?" JBC, "Sure, but in certain instances, we don't. I approved the payment because I know Dr. Aghayan is a hard working guy and I know him personally. He happens to be a good friend of the Prime Minister."

56. MK, "Would you describe Dr. Aghayan as an expediter?"

57. JBC, "Yes."

58. MK, "Could he be a New York type of expediter?"

59. JBC, "I don't know for a fact."

60. The conversation then went back to the \$1,200,000 payment to Siemens in connection with the "INTS" contract. ERC again asked JBC whether he knew what the money was used for, and wasn't it unusual that there was no documentation for this payment.

CONFIDENTIAL

61. JBC, "Yes, it is unusual but it was approved by Jeff Kitchen."

62. MK, "Well, would you make a \$1,200,000 disbursement if Jones had asked for it?"

63. JBC, "Yes."

64. At this point MK asked JBC to describe the steps that a controller normally would take before approving a commission payment.

65. JBC stated that there are probably four procedures that a controller would look to before approving the disbursement. (1) Is the transaction in accordance with the Northrop policies and procedures? (2) Does the transaction have proper approvals? (3) Does the transaction have proper documentation? (4) Is the transaction (the expense) deductible for income tax purposes, or what are the income tax considerations surrounding the transaction?

66. JBC also stated that if the transaction had to do with a government contract, the account distribution and overhead allocability and allowability would also be factors to be considered by the controller.

67. MK then asked JBC to apply the four elements described to the \$1,200,000 worth of payments made to Siemens.

68. JBC replied that essentially that particular transaction really meets one of the criteria and that is the second one with respect to the proper approval.

69. MK then asked JBC to describe who had approved the payments.

70. JBC stated that at the time, Jeff Kitchen ? Wahlschmidt, President of Page, had approved the transaction and therefore since Kitchen was designated as the person entirely responsible for the contract in Iran, this constituted satisfactory approval. JBC also stated that he wrote a letter to Siemens asking what Siemens had done with the money, but to the best of his knowledge, Siemens never replied.

CONFIDENTIAL

71. At this point, ERC described the Siemens transaction and the Savy transaction as ones which did not have documentation, and why did the company deduct the Savy payment and did not deduct the Siemens payment. "What is the difference? Savy was approved by Jones and Siemens was approved by Kitchen."

72. JBC responded that the Savy payments were deductible because they had been doing business with Savy for a long time and he was providing presumably marketing information, however, in the Siemens transaction they had no idea who the money went to and what it was used for. JBC said that he had heard it rumored that part of the money was used to "get the contract", but that he had no substantiation on this matter and it was just a matter of conjecture.

73. MK then asked, "What is the justification for this other than, I was told to do it?"

74. JBC, "Not a hell of alot."

75. MK then asked, "Well what would you want a controller to do in this situation?"

76. JBC responded that this type of transaction should be raised with the person's superior and in the case of Northrop a risk memo should be followed. With respect to the second part of the \$1,200,000, JBC indicated that there was an agreement with the consortium and he thinks that George Gore has a copy of it.

77. ERC asked that JBC obtain his files from Washington, D.C. and to please write a memorandum discussing his understanding of the Siemens matter, specifically, the memorandum should discuss the amount involved, the authority for disbursement, who approved the memorandum, who approved the payment, why the payment was listed on Schedule M and not taken as a deduction for income tax purposes, and why there was not any documentation. JBC stated that he would write the memorandum as soon as practicable.

CONFIDENTIAL

78. ERC then directed the discussion to the Interocean Salvage payment made by Northrop Airport Development Corp. (NADC) which is included as Exhibit B to JBC's narration. ERC asked who is Giorgio Berlingieri?

79. JBC replied, "I don't know." JBC stated that Mr. Willson and Mr. Gore were in Bangkok and he had received a telex from Glen Ward and Abe Moses stating that it was time to pay the \$500,000, and so he made out a check to Giorgio Berlingieri for \$500,000 and in accordance with Paragraph 3 (1) of Addendum 2 with Interocean Salvage Corporation and, furthermore, JBC stated that Lloyd knew about and approved the payment.

81. MK asked, "Why is this payment on the list?"

82. "Well, it falls under the unusual type of expenditure because a large amount of money was paid before any of the work had really started. However, to the best of JBC's recollection, Interocean Salvage was to be paid when the franchise for the Bangkok Airport was awarded to Nortac and, in fact, that had happened and therefore they were entitled to their money. Of course, after they did get the contract, the company decided that they did not want to continue in this field and therefore gave up the contract. JBC stated that he had even asked Gore if this payment should be considered a deduction for income tax purposes and according to JBC, Gore replied that it should.

83. For accounting purposes, the payment was transferred to the books of NADC through an intercompany account and then NADC tried to transfer it back to Corporate. However, it is recorded on the NADC books.

84. JBC then elaborated a little more about why NADC had decided not to continue with the contract and stated that there was political unrest, that they were not able to get the financing and that it was at the time of the energy crisis. In this regard approximately \$80,000,000 was going to be needed from outside financing.

85. ERC asked, "Isn't it unusual to abandon a project?"

CONFIDENTIAL

86. JBC, "No."

87. The conversation then turned to the Savy payment arrangements. MK asked why again is the Savy payment made outside of your shop?

88. JBC, "I don't know, but Waldo Nighkirk was in charge of the Savy arrangement because it involved a bank transfer and that's Nighkirk's responsibility. Any disbursements made by check are under the responsibility of JBC. Savy is the only individual paid by bank transfer."

89. At this point, the interview was completed and it was agreed that MHF would give ERC a copy of his notes as soon as possible.

M.H. Francisco
August 7, 1974

NORTHROP CORPORATION
Interview with Joe Waldschmitt

See Tom Rollinger's memo for specifics as to the interview with Waldschmitt on August 9, 1974. His memo contains specifics as to participants, etc. The purpose of my memo will be to just expand somewhat on my observations from this meeting, to set forth for the file certain things I deem to be of particular significance or importance.

Waldschmitt first was asked to give us a rundown as to what his involvement in the I.N.T.S. contract was. He proceeded to do this in quite good order, his comments being expanded upon periodically by Ed Stegemann of W & M. Following this overview many questions were asked by E&E and PW with respect to the I.N.T.S. agency payments. Waldschmitt stated he knew very little with respect to the detail behind these payments, and he more or less felt that Jeff Kitchen of Northrop was perhaps the most instrumental in these payments. He stated that Page had looked quite heavily to the role that Kitchen played in these payments, and that among other things, it was Kitchen who came to Page and more or less decided the timing on the payment of the fees. As a matter of fact, Waldschmitt stated that they were upset at the timing of certain of these payments, but that they proceeded at Kitchen's direction. We discussed fully the mechanics of Page's share of these payments, such things as how the 60% share was arrived at, certain mechanics with respect to the agents' agreements, whether or not more fees will be paid if the contract value is increased, etc. There was also inquiry made as to their knowledge of the establishment of the 5% fees on the front end. Also additional questions were raised as to the breakdown of these 5%'s, as between the Prince, Siemens, and Denrees. In response to all these questions, Waldschmitt and Stegemann's input was much like that earlier obtained from Baker. Their joint conclusion was that most of these facts should be set forth in the correspondence, although they doubt there is too much written with respect to the agents' fees per se. Stegemann seemed to recall that there were some hand written minutes prepared which talked about the 5% agency fees in total. He, nor Mr. Waldschmitt, were too clear however, as to what we might find in the files with respect to definite answers on the sharing of these agency fees by each member of the Consortium. In reply to certain questions with regard to the Schedule M treatment of the payments made to Siemens, both said that they had not agreed with the treatment afforded the transaction by the tax department, inasmuch as they felt it was a necessary business expenditure.

Stegemann was asked if he knew why the Prince Charam agreement was not signed by the Prince. He stated that the Prince "signed nothing," thus he did not see this as being at all unusual. Stegemann is attempting to secure for us an address for the Prince, and among other things, it was discussed as to whether or not he might be able to take into Iran a confirmation request for the Prince's signature. Stegemann does not have any observations as to what our success might be in obtaining the Prince's signature on such a confirmation. Both Stegemann and Waldschmitt stated they did not know who the principals of Denrees were or what the Siemens payments were made for.

More questions were asked as to Kitchen's role in the Consortium, we told Waldschmitt and Stegemann we have been informed that Waldschmitt was not a member of the Executive Committee. They affirmed that he was not, however they more or less painted him as a de facto member of the Consortium, and in their words was more or less the orchestra leader on the INTS project.

For the remainder of the specifics discussed in the interview, reference is again made to Rollinger's memo.

J. Kitchen provided address on 8/14/74; confirm with
his contact to P.O. Box in T. Charam. (Ed Page, Iran)

"C"

Longley

MEMORANDUM OF THE MEETING WITH MR. WILLSON AUGUST 9, 1974

The meeting began at approximately 9:00 a.m. and included Crim, DeVos, Klein, and Willson.

The first matter we got into was the payment of the \$108,150 by Jones to Savy. I asked Mr. Willson if he knew of any reason why the \$8,150 of interest was paid to Savy since, based on explanations of the transactions given to us by Jones and others, Savy was never without the use of his funds except perhaps for a few days between the dates he returned the \$94,000 to Northrop and the date of Jones' payment of \$108,150 to Savy. Mr. Willson said that he knew of no reason for paying the \$8,150 interest.

In addition Mr. Willson said that he knew of no way that we could be satisfied that Northrop was repaid the \$100,000 Nixon contribution which Jones and Northrop plead were made from Northrop funds. We discussed this at length, and Willson agreed that an accounting from Savy would be a necessary ingredient to becoming satisfied that Northrop had been repaid. I pointed out to Mr. Willson that my concern over this stemmed from the fact that we had been asked by the Board (in the April 29, 1974 resolutions) to determine that Northrop had been reimbursed for all costs and expenses relating to this transaction (in addition to the \$50,000 Kalmbach contribution to the Nixon campaign). I also pointed out that we were concerned insofar as any explanation might be given in a filing with the SEC. Our position would be brought directly into focus if the E&E opinion were required in the same filing. This would be in addition to any other objection we might want to make.

The next matter discussed was the INTS payments. Mr. Willson said he knew very little about this since Northrop was quite decentralized. He said that Waldschmitt was the "key man."

Willson meeting 8/9/74

-2-

Mr. Willson said that they talked with the O'Melveny & Meyers firm about this problem. He said that it was on their recommendation that the INTS payments were included as Schedule M items. He said that O&M did not want to lose the entire balance of the commission payments on the INTS contract because of the problems relating to these Siemens payments. Apparently there was approximately four and one half million dollars of Northrop funds involved in the commissions deduction for tax purposes on the INTS project in addition to the Siemens amounts. He used the phrase "they did not want the entire commission lost in the noise level" raised by the Siemens payments. These other commission payments involved those to Denrees et Equipments, S.A. ("Denrees"), and certain other payments to Prince Charam Pahlavi.

During the discussion Mr. Willson made reference to the fact that he heard that a Mr. Jablonski had taken cash to Switzerland and had passed it out in a hotel room. Note, this is the same comment which was by Mr. Rath and also acknowledged by Mr. Campbell as something he had likewise heard. I should add that since the meeting with Mr. Willson I had occasion to talk with Mr. Gore briefly and he said that was the understanding he had regarding these Siemens payments, i.e., that Jablonski had taken the money over in a brown bag and handed it out in a Swiss hotel room.

(Note - the amounts involved as shown by Mr. Willson's Narration, were \$618,560 for the year ended July 31, 1970 and \$515,669 for the year ended July 31, 1971).

In talking about the INTS deal, Mr. Willson said that it was currently considered a "not profit - no loss deal." He said there had been a significant cost overrun and there had been a sixty million dollar additional billings. He pointed out that currently Northrop was booking the transaction at no profit and that E&E had qualified its last opinion because of the uncertainties in the INTS situation.

Memorandum

Northrop Corporation, Corporate Office
1800 Century Park East, Los Angeles, CA 90067

In reply refer to:

431

To: **Thomas V. Jones**From: **George Gore**Subject: **Investigation by Auditors**Date: **September 27, 1974**Copy: **ROSS F. Miller**

At the request of Ernst & Ernst, we sent letters to Siemens, NEC, and GTE requesting confirmation of fees paid to agents. A copy of each of these letters is enclosed.

This morning, Ross Miller was notified by telephone from Germany that Siemens cannot and will not make any response whatsoever. The telephone call was from a Mr. Koch, acting on behalf of Dr. Bauer.]

When Mr. Kobayashi received the letter, he notified Ross that he was asking the Senior Vice President, Mr. S. Uematsu, to respond. Today, Ross received the following message from Mr. Uematsu:

"DR. KOBAYASHI PASSED YOUR LETTER OF AUGUST 31ST ON TO ME FOR REPLY TO YOU.

"SINCE WE HAVE NO CONCERN ABOUT THE MATTER YOU REFERRED TO, WE REGRET THAT WE ARE UNABLE TO COMPLY WITH YOUR REQUEST. HOWEVER IF NEED BE, I WOULD SUGGEST THAT THIS MATTER BE DISCUSSED AT THE FORTHCOMING CEB MEETING AT TEHRAN."

George Gore, Vice President
and General Counsel

GG:rk

NORTHROP

GNPS CONSORTIUM

A Contractual Association of:

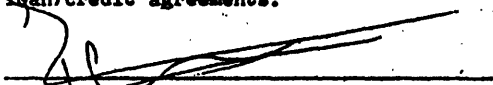
O.T. & E. International Inc.
 Nippon Electric Co. Ltd.
 Page Communications Engineers Inc.
 Siemens Aktiengesellschaft


Tehran, Iran
 December 5, 1969

SUBJECT: Third Party Sales Expenses for the "INTS" Project
 TO: --- Negotiating Team Leader, Mr. J.C. Kitchen
 FROM: GNPS Consortium, Executive Committee

Each Member Company has included within its respective cost for implementing the project monies equal to five percent of the sale price of each company's participation. The sale price is to be without tax, insurance, and local customs and fees.

Each Company will make such monies available through the Consortium for the payment of third party sales expenses as directed by the Leader of the Negotiating Team. However, no money will be made available for payment of the subject expenses prior to receipt of the initial down payment from the Government of Iran and the required foreign government approvals of the loan/credit agreements.


 General Telephone & Electronics International Inc.


 Nippon Electric Company Ltd.


 Page Communications Engineers, Inc.


 Siemens Aktiengesellschaft

- C. Each party shall bear the cost of the arbitration. **Extract from contract between the GNPB consortium and the Iranian Government.** own case, and expenses equally by the Parties.
- D. In the event of a dispute hereunder, of any type or nature, the Ministry and the Consortium shall nonetheless proceed in the good faith performance of their respective obligations pursuant to this Contract, and shall not take any actions relating to the matters in dispute until adjudicated by the Board of Arbitration and judicially enforced, if necessary.

CLAUSE 26 - CHANGES

- A. The Ministry may, at any time during the performance of the INTS Project, make changes within the general scope of the INTS Project as such is reflected in this Contract and more specifically in its Annexes. In addition, the Ministry and the Consortium may agree, at any time during the term of the contract, to make changes within the general scope of the INTS Project as such is reflected in this Contract and more specifically in its ANNEXES.

The consequences of such changes, as mutually agreed upon by and between the Ministry and the Consortium, shall be reflected in equitable and applicable adjustments which shall thereupon be made in writing, in the Contract price, financing provisions, schedule of performance, and any other affected provisions of the Contract.

- B. In the event that defects and/or errors are shown to exist in the specifications, bills of material, engineering data and information, site data and information, and the like, which have been and are to be provided to the Consortium by the Ministry pursuant to the terms of this Contract, an equitable adjustment must thereupon be made in the thus affected provisions of this Contract, and more specifically in the ANNEXES, adequately to reflect the costs and the time reasonably incurred by the Consortium both in previously attempting to comply with such defective specifications, bills of material, engineering and site data and information, and the like, as well as in subsequently conforming to the corrected specifications, bills of material, engineering and site data and information, and the like.

23. 2. 1/2

Quth

CLAUSE 27 - DELAY AND TEMPORARY SUSPENSION OF WORK

- A. In the event of delays or of anticipated delays in the Consortium's performance of the INTS Project, the Consortium shall promptly notify the Ministry of the delay and of the reason therefor, and of the expected duration of the delay.
- B. In case of an anticipated delay or damage, which is not the fault of the Consortium, the Ministry will upon notification from the Consortium, act appropriately to eliminate the causes of the anticipated delay or damage.
- C. Should a delay or damage in the performance of the Contract take place, and the cause of the delay or damage is not the responsibility of the Consortium, as that responsibility is set forth in the Contract, the Consortium shall be entitled to be granted by the Ministry an extension of time and if such should take place within Iran of additional compensation for the resultant expenses which are necessitated by the delay or damage. The terms and conditions of the applicable Clauses of this Contract shall govern the determination of the extent of such additional time for Contract completion and resultant compensation therefor.
- D. Should a delay or damage in the performance of the Contract take place and the cause of the delay or damage is the responsibility of the Consortium, as that responsibility is set forth in this Contract, the Consortium shall be totally responsible for the correction of the cause for the delay or damage and for the consequences of such delay or damage as such consequences are set forth in this Contract.
- E. The Consortium must take immediate steps to avert or to minimize or to counter an anticipated or an actual delay and/or damage to its performance of the INTS Project, no matter what the cause, without awaiting the orders or instructions of the Ministry or of third parties. Subsequent adjudication of the causes for the anticipated or actual delay or damage will govern in accordance with the terms of this Contract the compensation payable to the Consortium for such efforts.

CLAUSE 28 - CONSORTIUM'S LEGAL PROHIBITION

- A. The Consortium declares that at the time of signature of this Contract it is not in violation of the provisions of the Non-Intervention Law No. 22 DEY 1357, and should the contrary be proved to the Ministry the Contract shall be terminated and the requirement of Clause 23, entitled "Termination for Default" shall be followed.

[Handwritten signatures and initials]

-52-

- B. Should, during the performance of the tasks, up to the time of Preliminary Acceptance, the Consortium become liable to the prohibition of the above law, the Contract may be terminated and the requirements of Clause 23 "Termination for Default" may control, provided that the violation is not cured by the Consortium within 30 days of the date that the Ministry advises the Consortium, or the Consortium advises the Ministry, of a violation of the said Law.

CLAUSE 29 - GIFTS

Should it be proved that to obtain the Contract the Consortium has offered to the officials concerned any commission, compensation, gift or present whether in cash or in kind or has made the above officials or their intermediaries partakers in its profit the Ministry shall have the right to terminate the Contract, and whereupon the terms of Clause 23 entitled "Termination for Default", shall control.

CLAUSE 30 - OFFICIAL LANGUAGE AND GOVERNING LAW

- A. Due to the international character of the work to be performed under this Contract the official language of this Contract shall be the English language until such time after Contract signature as the parties hereto have agreed upon a Farsi translation thereof, whereupon the Farsi text shall be the official language of this Contract.
- B. The Laws of Iran shall govern this Contract.

CLAUSE 31 - OFFICIAL ADDRESS OF THE CONSORTIUM

The Consortium's official address for the purposes of this Contract is that stipulated below. Should any change be made in the address, the Consortium shall immediately notify the Ministry and its Representative of such change of address. Should the Consortium fail to fulfil its undertaking in respect of the above, any communications made by the Ministry or its Representative through the Post Office or by messenger to the former address of the Consortium shall be considered as official notification. To be valid all notices, communications, and correspondence to be exchanged by and between the Ministry and the Consortium shall be directed to the General Manager to be appointed by the Consortium, and to the Ministry or to its designee.

The following is the official address of the Consortium:

The "GNPS Consortium"
Old Shemiran Road
3 Amir Ebrahimi Street
Tehra, Iran

CHAPTER V

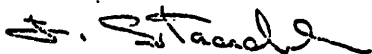
SIGNATURE OF THE CONTRACT

On the 20 day of JANUARY 1970, the Ministry and the Consortium have caused this Contract for the IMIS Project to be signed in the City of Tehran, Iran in two (2) original copies, by its duly and properly authorized Representatives, each in accordance with the authority recited under each signature.

The Ministry of Post, Telegraph and Telephone of the Imperial Government of Iran

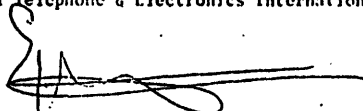
dated JAN 20, 1970 No.

by



General Telephone & Electronics International, Incorporated

by



authorized by Power of Attorney designated

Nippon Electric Company Limited

by



authorized by Power of Attorney designated

Page Communications Engineers, Inc.

by



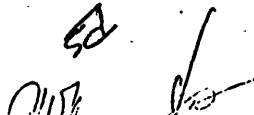
authorized by Power of Attorney designated

Siemens Aktiengesellschaft

by



authorized by Power of Attorney designated



This amendment made and executed on this 20th day of May, 1970, by and between the Ministry of Post, Telegraph and Telephone of Iran and the INPS Consortium.

the Parties, after thoroughly examining the problem which they may face through the implementation of Clause 50 of the INPS Contract, agreed and amended the said Clause to read as follows :-

Clause 50 - OFFICIAL LANGUAGE AND GOVERNING LAW

- A. Due to the international character of the work to be performed under this Contract the official language of this Contract shall be the English language until such time after Contract Signature as the parties hereto have agreed upon a farsi translation thereof, whereupon the farsi text shall be the official language of this Contract. Both the English and farsi texts are valid. However, in case of discrepancies between the two texts, the English text shall prevail.
- B. The laws of Iran shall govern this Contract.

The Ministry of Post, Telegraph and Telephone of the Imperial Government of Iran

dated 20th May 1970

By

General Telephone & Electronics International, Incorporated

By

authorized by Power of Attorney designated

Nippon Electric Company Limited

By

authorized by Power of Attorney designated

Page Communications Engineers, Incorporated

By

authorized by Power of Attorney designated

Siemens Aktiengesellschaft

By

authorized by Power of Attorney designated

AMENDMENT 1

Memorandum
Northrop Corporation, Aircraft Division
3601 West Broadway, Northrop, CA 94568

NORTHROP PRIVATE

14 copy refer to:

435

To: George Gore

Subject: SALES COMMISSIONS - IRAN

Copies: R. H. Eddington
M. G. Gonzales
R. B. Watts, Jr.

From: P. H. Champion

Date: 3 April 1974



In connection with the conversation of April 1, among you, Bob Watts, Manny and myself, we have received a copy of the Letter of Offer for the 28 F5F aircraft which we expect will be signed in the immediate future. This Letter of Offer contains the following language:

All US Government contracts resulting from this Letter of Offer shall contain this provision: "Notwithstanding any other provision of this contract, any direct or indirect costs of agent fees/commissions for contractor sales agents involved in foreign military sales to the Government of Iran shall be considered as an unallowable item of cost under this contract."

*This is 3A 117
language, for
the 28 F5F
aircraft. In
this it is a test
that the price is...*

*Contingent
fee is a
must aspect
normal.*

The foregoing would seem to indicate that commissions are acceptable if paid from profit. It could even go so far as to allow us to sign the Contingent Fee Certification in the affirmative. In any case, it does not preclude either of the foregoing assumptions. The only problem not dealt with is whether or not our signing in the affirmative automatically causes the United States Government to inform the Government of Iran of the contingent fee.

For your information the commission on this could approach \$2.0 million.

Paul

P. H. Champion

Memorandum

Northrop Corporation, Aircraft Division
3601 West Broadway, Hawthorne, CA 90230

NORTHROP PRIVATE

439

In reply refer to:

To: W. G. Niemann

From: P. H. Champion

Subject: AGENCY COMMISSIONS - IRAN

Date: 5 April 1974

Copies: M. G. Gonzalez
G. Gore



Ref:

I would appreciate your computing our commission liability on Iran as of 31 December 1973 and as of 31 March 1974. As you are probably aware the rate is one and one-half percent (1-1/2%) against payment received by Northrop. You may also be aware that our agent has been paid \$450,000 against a Corporate retainer which is deductible from commissions due.

This is not a request for payment but merely a request for the amounts due on the above dates.

P. H. Champion
P. H. Champion

Memorandum

Corporation, Aircraft Division
West Broadway, Hawthorne, CA 90250



To: E. H. Champion

In reply refer to: 9600-74-64
WGN/BFS/jm

From: W. G. Niemann

Subject: COMMISSIONS - IRAN

Date: 15 April 1974

Copies: H. C. Gonzalez
G. Gore

Ref:

In reply to your request, the commissionable bases and the commissions for sales consultants for Iran have been calculated as of 12-31-73 and 3-31-74. The data is provided on the two attached schedules.

W. G. Niemann, Manager
Financial Receipts & Disbursements
9600/64, Ext. 2088

2 Attachments

COMMISSIONABLE BASES
FOR INDIRECT SALES TO IRAN

As of Dates Noted

Contract -0717, P-5E

	<u>No. of Planes</u>	<u>%</u>	<u>Pro Rata TID Costs</u>	<u>80% Progress Payments</u>	<u>27.2% of Sales</u>	<u>Commission Base</u>
<u>As of 12-31-73:</u>						
Iran (3E)	58 of 136	42.6%	\$32,776,000	\$26,221,000	\$1,624,000	
(4A)	83 of 214	38.8%	4,165,000	3,332,000	-0-	\$31,177,000

As of 3-31-74:

Iran (3E)	58 of 136	42.6%	\$42,176,000	\$33,740,000	\$3,952,000	
(4A)	83 of 214	38.8%	8,312,000	6,650,000	-0-	\$44,342,000

NORTHROP PRIVATE

THE DESIGNATION NORTHROP
PRIVATE SHALL NOT BE CANCELLED
ORIGINATOR W. G. Niemann DEPT 9600

NORTHROP PRIVATE

Attachment #2 to
9600-74-64

442

COMMISSIONS

As of Dates Noted

Commission Bases

12-31-73	\$31,177,000
3-31-74	\$44,342,000

Economic & Development Corp.

	<u>1 1/2%</u> <u>1st \$10M</u>	<u>1%</u> <u>Next \$30M</u>	<u>3/4%</u> <u>Next \$30M</u>	<u>Total</u> <u>Commissions</u>
12-31-73	\$150,000	\$212,000	-0-	\$362,000
3-31-74	\$150,000	\$300,000	\$ 33,000	\$483,000

Management & Technical Consultants (ATS)

	<u>1 1/2%</u> <u>Contract</u> <u>Price</u>
12-31-73	\$468,000
3-31-74	\$665,000

Note: \$450,000 advance is deductible from MTC amounts.

THE DESIGNATION NORTHROP
PRIVATE SHALL NOT BE CANCELLED
ORIGINATOR W. G. Niemann DEPT 2

NORTHROP PRIVATE

AGREEMENT

BETWEEN The Northrop Corporation, incorporated in The United States of America, on behalf of the Consortium identified as G.N.P.S. , and [REDACTED] the following Agreement is hereby concluded:

WHEREAS [REDACTED] has rendered and will continue to render valuable services as a Consultant in support of The G.N.P.S. Consortium's business opportunities in Iran and; WHEREAS The Consortium wishes to compensate him for the rendering of the said services:

THEREFORE the parties hereby agree as follows:

- 1 - G.N.P.S. Consortium hereby undertakes to pay [REDACTED] $\frac{1}{2}$ of 1% (one-half of one percent) of the total Contract price of any initial Contract awarded to the G.N.P.S. Consortium for supply of equipment and services for the project known as the Integrated National Telecommunications System.
- 2 - The said amount shall be paid in the currencies received by the Consortium as compensation at any place designated by [REDACTED]
- 3 - The amount specified under (1) above shall be paid after receipt by the Consortium of the down payment plus all instruments of credit of the Iranian Government in payment for the initial contract.
- 4 - All payments subject of this Agreement shall be net and free of all taxes, or other deductions.

5 ~~_____~~ may assign his rights under

this Agreement to any other party without the necessity of any prior agreement by the G.N.P.S. Consortium.

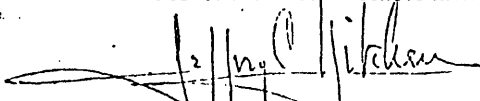
Furthermore, he may specifically instruct the G.N.P.S.

Consortium that all payments to be made under this Agreement be made to such party(s) as he may from time to time determine.

This Agreement is an agreement for compensation for services rendered and ~~_____~~ is in no way obligated to perform any other services for the G.N.P.S. Consortium or the Northrop Corporation beyond those relating to the execution and implementation of the initial Contract identified above.

Signature:

For The G.N.P.S. Consortium



Jeffrey C. Kitchen.

November 20, 1969

PART B - 5

MATERIAL RELATING TO AGENTS IN SAUDI ARABIA, ADNAN KHASHOGGI
AND TRIAD FINANCIAL ESTABLISHMENT

446 Blue 5/27/74

NAD - NORTHROP SPECIAL INVESTIGATION
 REVIEW OF TRIAD CORRESPONDENCE FILES
 (M. GONZALEZ FILES MAINTAINED IN P. CHATINOS OFFICE)

10-6-70

Memo from Watts to Gonzalez with a copy to Gates - transmissions of copies of agreements entered into with Khasshoggi in Paris. In this memo are the following comments regarding the consultant agreement with Alnasr Trading and Industrial Corporation. "This is the document which will be open and public to justify our relationship with Khasshoggi in country. All of the other documents and agreements are secret and under no circumstances are they to be disclosed or discussed outside of the key responsible people within Northrop... As you will note in the third document, entitled Contemporaneous Agreement, in the event of a sale, the consulting payments are creditable against the commissions we will owe; or, if no sale occurs, then, all payments we have made will be refundable to us."

6-23-70

Memo from M. Kuska to M. G. Gonzalez re Adnan Khasshoggi agreement. "The first thing that has to be determined is whether Khasshoggi is the right man or not. This determination is not to be made until Corporate and the Aircraft Division mutually agree as to his selection."

6-12-1970

From Watts to Gates - copy to Gonzalez re Adnan Khasshoggi agreement. This is just a transmission of the draft of the definitive sales representation agreement for Khasshoggi which was to be used for purposes of negotiation with the representative in Washington.

O indicates copy made of original memo

7-6-71

Letter from Watts to MacLeod

~~THIS LETTER TRANSMITTED AN~~ irrevocable assignment to BS and R in which Watts stated as requested by Lou Lauler, I have not made any reference to Triad as was done in the case of the assignment to Contina. He also goes on to say I note your assignment to Contina only covers them in the event of a direct sale. Since it now appears that the government sale will occur, you will probably want to prepare an additional assignment covering Contina in this situation. He also noted you should be very careful to indicate that the commission rate for an indirect sale only applies to the Northrop content and not to the total contract value.

6-26-71

This was a three-page handwritten memo on yellow paper entitled "Commission Agent." The text of this memo is as follows:

1. Sultan stated in the 15 June meeting that he did not want any agent involved. This was contained in a wire from the Embassy to Washington. (Note - in any negotiation at the SPO on the indirect and product support factor in the FMS^{copy}, it may be advisable to not present our agreement with Triad at the negotiating table because of the wire).
2. Ambassador advised me on 24 June that he had previously been approached by several of the high level members of the Saudi government who asked him for the help of the U. S. government in "extricating themselves from the clutches of these agents." He specifically mentioned Khaseb^{copy} by name. He indicated that high level people were beginning to realize that they had made a mistake in getting themselves indebted to these agents and were trying to change the age-old pattern here. The Ambassador advised them that it would be up to them to help themselves, that the U. S. government couldn't do it for them.
3. After the 15 June meeting and before the 24 June discussion with the Ambassador, I advised Kutay that the entire package appears headed for FMS. This was due to the continued insistence by Sultan and Turki that

they wanted the Program to go this way and the Ambassador's desire to give them whatever they want. Kutay was ~~advised that unless~~ ~~advised~~ Sultan or Turki, at the outset of the 27 June meeting expressed a different position on the support area that they would probably be offered the entire package FMS at that time.

4. The Ambassador asked for and received (on 26 June) authority to commit to FMS on the entire package. He will deliver a "Talking Paper" to Prince Turki in advance of the 27 June meeting in which this fact is stated. It is unlikely that the Saudis will now reverse their position after having been given what they previously insisted on.
5. Khashoggi has unquestionably been working on the Saudis to get them to ask for the support package direct rather than FMS. This could present a problem but delivery of the "Talking Paper" in advance of the meeting should help to minimize the problem. In addition I will advise Khashoggi this evening (26 June) to retreat since it could jeopardize the entire sale.
6. The agreement Northrop has with Triad indicates that a 4% commission applies on what "Northrop sells." The understanding on the aircraft is that it applies to the flyaway which equals about 6% of what we sell, but there is no such qualifying understanding on the support elements. In the support area, what Northrop actually sells to the U. S. government is a significantly reduced percentage of the total dollar amount. When this is fully understood by Khashoggi it will create some problems, but I do not intend to review this in detail with him until after the sale ~~is~~ locked in unless he brings it up.
7. This entire area is extremely sensitive and potentially explosive, and must be treated with a great deal of tact and caution. One fact which should be kept in mind is Sultan's statement at the 15 June meeting

~~Done~~

4

that while no agent was desired by the Saudis in contracting with the U. S. Government that if "Northrop felt that there was a requirement for one in country that was up to Northrop." The inference was that this was O.K. and as long as it didn't cost the Saudi's anything.

January 28, '71 Memo from R. G. Rogin to C. R. Gates - a copy to S. Souki re Saudi Arabia - London/Paris Trip Report, January 10-15 1971. Text follows:

"The morning of the 11th, I met with Adnan Khasshoggi at the Mayfair Hotel for updating on the matters to be discussed by me with Prince Khaled.

Adnan suggested I tell Khaled the following:

- 1) Northrop is annoyed with A. K.'s demands. Percentage on commission is already 12% and we do not know how many more persons will be involved.
- 2) Northrop feels there is no serious intent by R. S. A. F. and if we do not have an order by April - May 1971, we will phase out the -13 production line. It will then be three years until the -21 is available and who knows what may transpire in that period of time.
- 3) Northrop still believes it is not possible to hide that much commission on an aircraft which price is known internationally. If Northrop sees some indication of seriousness by the Saudi government, we might be able to work on an arrangement with the signing of an order but not at 10%.
- 4) Evidently, other members of the royal family have contacted Northrop in California re the sale and their demands are not as high.
- 5) Mr. Gates is very sorry to not have been able to come to London now to see you, but he was unable to get away. If something concrete comes up he will join me in a visit to Saudi and looks forward to meeting H. H.
- He was told by Sultan that he may appoint a new

A.K. believes

this could add one more player to the commission list. has told A.K. he wants 5% and can handle the sale of the F5's without the support

5
of Prince Turki or Khaled.

Prior to your meeting with [redacted] in Geneva we will need to know where [redacted] stands as far as commissions and whether he will approach you direct during your sessions. Sterling may have something on this when he comes out of country.

Adnan feels [redacted] is starting high and would settle for less. I am inclined to agree with this.

I expect to see more players before we are through and especially when the F-5 sales looks like it's going to be approved. IE, Minister of Finance, Chief of Armed Forces, etc. Adnan is of the same opinion.

I called Khaled at noon but he was tied up until 4 p.m. when we met in his U suite.

I covered all of the above points with him except the members of the Royal Family contacting you as I did not feel it was necessary at this time and had not decided whether it was a good idea. I also steered clear of an agreement with him since his percentage was too much, etc. Khaled listened attentively and made the following comment: "I can get you the order without Prince Turki as I am not representing Turki." This I queried on because at my last visit in Saudi with Khaled, he and Adnan stated that he represented Turki. He merely repeated that he was representing himself. He believes A.K. has more than a 2% commission and we should cut A.K.'s commission, not his. I countered with the fact that I had not seen A.K.'s contract, but 2% was normal in our world-wide sales.

A.K. did not seek his help on Lockheed--Raytheon contracts, but now he (A.K.) has come to me for assistance on the sale as well as Page. Therefore, if he is to be given a percentage it will not be the 1% A.K. negotiated with Northrop without him advised of it, but he will make the same direct deal with Northrop, not through A.K.. I went into the same story as I had done in Saudi, that 10% plus 2% was too much to hide, he could not guarantee

the MODA would accept it, too may USAF and Paki advisors would get wind of it, which if an investigation broke out could cause much harm to Northrop and other countries where we are and have been marketing the F-5 (these expressly Arab nations).

Khaled advised me to give him a counter offer to his 10% or an answer that we are not interested in using his services. He also said he would hold no hard feelings, but that if he were going to represent us he was going to do it for more than 1%.

I told Khaled that I had to communicate with you and would get an answer back to him as soon as possible. Khaled by this time was calling me by my first name, I did not reciprocate.

That evening I was unable to get ahold of A.K., but did meet with Lou Lauler and Mac Leod and a couple of other U. S. legal types who work for Adnan. I did not discuss Khaled, but Mort said he had talked with Jim Willson and was up to date on the potential oil deal. A.K. was not available. We talked on the phone and agreed to meet with Souki in Paris Wednesday P.M.

I arrived in Paris Tuesday night and met with Sameer^(Sami) Wednesday night, but Adnan did not make it to Paris that evening. I reviewed the above with Sameer^(Sami) who recommended A.K. be advised he is our sole agent and Northrop is paying him a commission to get us the sale and not to have us negotiate separately with every Saudi who wants to get into the act.

Wednesday evening A.K. arrived in Paris and after a late session we phoned you regarding all of the above. Around one a.m. Sameer^(Sami) and I dined with Adnan and his cast of thousands. It reminded me of our last visit in Paris eating dinner at midnight. It looks for the moment as though Khaled, in A.K.'s opinion, does not swing a big stick. A.K. told me in previous dealings with Prince Turki that he (Turki) was a most reasonable individual,

<CONTINUED ON REVERSE>

one or two percent, not what Khaled claims. Add this to Khaled's telling me can get the order without Turki and claiming he does not need to go through Khaled or Turki and I am wondering where Khaled feels he has influence. If it is through Sultan, he should have made that clear from the very beginning instead of claiming to represent Turki.

One of the more important things I am going to have to do is call out who are the players that have to be considered in order to assure our getting the order and soon.

7

7-31-71

Letter Mac Leod (Triad) to Watts

8-6-71

Letter Watts to Mac Leod

Aboveadual with contract terms. Nothing pertinent to relationship which is not indicated in contract.

Five page hand written memo on graph paper entitled Notes for Conversation with Adnan.

1. Activity at Moda before signing
2. Prince Khaled's visit
3. Other activities before the signing
4. Activities after the signing

1. On Tuesday, 27th of July the entire U. S. delegation (including the Ambassador, General Smith, etc.) went to the ~~Moda~~ in ~~Jeddah~~ to meet with the Sultan and have the Letter of Offers signed.

The meeting was scheduled for 11:45. We were met by General Hashim who stated that the Sultan might not be available for the signing that day. After approx 45 minutes of waiting the Ambassador and General Smith were taken down to see the Sultan by Hashim. Hashim returned to the conference room alone after a few minutes. The Ambassador and General Smith were talking about other programs with Sultan. Hashim was called into Sultan's office at approx 11:30. He returned to the conference room after a few minutes and stated "There will be no signing today. The contract will be signed at 1:00 o'clock tomorrow and his Royal Highness would like everyone to come since this will be a happy occasion." The Ambassador and General Smith returned to the conference room at 2:00 O'clock and stated essentially the same thing.

(Note - no reason was given as to why the contract could not be signed on Tuesday if it was ready for signing the next day. It appeared to be an unusual and unnecessary delay).

In the afternoon on the 27th July General Hashim and Mr. Monsouri went to

see the Ambassador and General Smith at the Embassy. They asked that the price stated in the Letter of Offer for the 20 F-5-B aircraft be certified as being a ceiling price - adjustable downward only. We were called to the Embassy to review this request. A message was sent to USAF-HQ and DOD asking for authority to make the aircraft price a ceiling price. (Note - it is contrary to USG procedures and the regulations covering Letters of Offer to have a ceiling price type of quotation. The prices are estimated and the contracting government is merely charged whatever the USG pays, either more or less.)

2. PRINCE KHALED'S VISIT

- a. At approximately 8 o'clock Tuesday evening, 27 July, George Sterling got a telephone call at the hotel from Prince Khaled el Abdullah. He stated that he was calling from Prince Turki's house and wanted to come talk to us. About half hour later Prince Khaled arrived at the hotel. He was very upset and stated that he had decided to go see Prince Sultan that evening to attempt to get him to delay the signing of the contract. He said that he had been asked by Adnan to return to Jeddah to make sure that everything went well on the F-5B program and that he discovered that it was going government to government and as a result he would get nothing out of the sale. He added that he had worked very hard - harder than Adnan - to bring the sale about and that he had even spent some of his own money on behalf of the program. He stated that he knew Adnan was getting paid by Northrop every month and would get a commission when the contract was signed. He added "and I can prove it." He indicated that he would tell Prince Sultan that his efforts to avoid a commission by going government to government had failed and he would ask him to either force Adnan to return any money he received from Northrop or delay signing the contract until he had worked out a deal with Adnan. He said "If I get nothing

-9-

then I will make sure that Adnan gets nothing. If he gets one dollar I want fifty cents. Otherwise I will take steps to make sure he never does any more business in this area." We told them that he should be talking to Adnan rather than us, and asked him what he would suggest that we do. We had no suggestion to offer. I told him that we would not like to see the contract signing delayed but that there was nothing we could do to guarantee to him that he would participate in anything Adnan might receive under the F-5-B contract. He stated that Adnan had shown him the contract with Northrop and that it had a 5% commission for direct sale and approx 1% for indirect sale and that Adnan had told him Triad was getting around \$3,000 each month for expenses. I told Prince Khaled that I did not have a copy of the contract with me but those figures were probably very close. I suggested that he keep in mind the maintenance contract, which if it goes direct to Northrop would provide for a commission to be paid to Continuum. He stated that he did not want to wait three years, he wanted something now and that besides we were in direct competition with Lockheed and that Adnan was working for Lockheed, not Northrop. He asked that Northrop sign up with him rather than Adnan for the maintenance work. I told him that we would have to live with any contracts we had already signed but if the maintenance contract were directed to Northrop I was sure that he could properly be taken care of. I also stated that I would go with him to see Adnan to determine whether or not it would be possible for him to share in any commission on a government-to-government sale of the aircraft and that if everything was as he represented it would be I would state that I thought he should receive a share. Prince Khaled seemed less disturbed when he left but was still obviously not happy. He called Hashim from the hotel and left. He did not state where he was going from the hotel. He stated that he could go to

10

see Adnan around to August, and that he didn't want to keep us waiting that long for him but that he would call me before leaving for Beirut the next morning.

- b. After Prince Khalid left we phoned Yashar. He came over to the hotel and we reported everything that had gone on to him. He tried to reach Prince Khaled but was unsuccessful. We agreed that we should try to get word to Adnan to return to Beirut as quickly as possible to settle things up with Khalem.

3. OTHER ACTIVITIES BEFORE THE SIGNING

- a. The Embassy received a reply to its message requesting authority to make the price for the 20 aircraft the ceiling price. The answer was no. This was passed on to General Hashim, but the one o'clock meeting was not delayed. Everyone from the U. S. side arrived at the Hotel as scheduled. Soon after one o'clock Prince Sultan and Prince Turki came into the conference room and were seated at the table. Sultan reviewed the contract. He commented about the previous news release about the F-5's and a Lockheed contract and said any publicity should be avoided. He then asked me "Do you have any agent in Saudi Arabia?" I said "No, not in Saudi Arabia." The Ambassador added that since this was a government deal there would be no middle man. Sultan then asked what about back in the U. S. between the government and Northrop. The Ambassador replied that there would be no agent (Note - the agreement between Northrop and Triad provides for a commission of "not less than 1% of the sales price, subject to the allowability and recognition of such compensation by the U. S. government." This was subsequently established at 4% on FMS sales but is still subject to the same conditions of USC approval.)

-H-

- b. Sultan, just before signing the contract, stated that he usually takes months to review contracts of this size before signing, but that he would sign based upon his confidence in the U. S. government and the Ambassador.

4. ACTIVITIES AFTER THE SIGNING

- a. After most people had left the conference room and just as I was about to leave, General Hashim took me aside and said "His Royal Highness wants to see you." I went downstairs with Hashim. He stated that Prince Turki had asked him to give me a message, but he thought it would be better if Prince Turki told me the message himself.
- b. Hashim and I went into Turki's office. He chatted about meeting Tom Jones at the Paris Air Show and that he considered him a friend. He then stated that "Speaking as a friend, and not in any official capacity" he understood that "There was a disagreement with Prince Khaled" and that he "Considered this to be most unfortunate" and that he "Hoped things would be worked out to his satisfaction." (Note - obviously Khaled had talked to Hashim, who acted as Turki's translator, Turki and Sultan. It is also obvious that they all expect Khaled to be taken care of in some way to his satisfaction or there could be a scandal. There would be no other reason for Sultan to have asked his question about an agent just before the signing except to set the stage for a pressure play if required.)
- c. Khaled phoned me at the hotel prior to his departure for Taif, but I was out. When I returned the call he had gone. I tried unsuccessfully several times to reach him by phone in Taif before I left for Beirut. Through Yashar I sent messages to Khaled that I was leaving for Beirut and then to London to meet with Adnan.

-12-

No date

Two page typed memo "Payments to Khashoggi for Phase I & II"

- Six questions and answers re: "

- A) controlling documents
- B) comm rate
- C) when comm payments due
- D) has "sale" been made
- E) comm base
- F) what prices in the Letters of Offer, which have been

signed, form the base against which the comm will be applied.

No date

Typed memo entitled "Notes for Discussion on Commission for General Hashim for Phase III"

1. Hashim would have participated... on a direct sale... would have been through Khashoggi... Conversion to FMS commissions substantially reduced and apparently he received nothing from Khashoggi; however Gates and Kuska indicated... their understanding that Hashim would participate even in an FMS case. Khashoggi will receive somewhere between \$1 and \$1.6 million... on Phase I & II. He has committed to pay Khalid approx. \$150,000. In addition... Souk 1/2 of 12.... In any event, there should be ample funds within what Khashoggi receives to make some payment to Hashim.
2. Khashoggi has stated it is necessary to make some payments to Hashim at this time in order to ensure his support on Phase III. His recommendation is, of course, that Northrop make such a payment and the amount he has recommended is between \$200,000 and \$250,000.
3. Northrop's approach in view of the above should be in the following order:
 - A. Khashoggi should pay money to Hashim now out of what he receives out of Phase I and II as he is paying Khalid. If this is not practical, then

See page 10 for notes...

-7-

- b. Hashim should be advised he will receive \$250,000 over and above any commission he would otherwise receive on Phase III as soon as and on condition that Phase III is awarded to Northrop. If this is not practical, then
- c. Northrop will direct Khashoggi to pay Hashim \$250,000 now with the understanding that if there is no Phase III award to Northrop it will be deducted from any commission due to Khashoggi on Phase I and II, but if Phase III is awarded to Northrop, Khashoggi's commission on Phase I and II will be paid as well as Hashim's full commission on Phase III.

10-31-71

Gates Phone Conversation on Saudi (typed memo)

1. Gates and Jones met with Khashoggi and Souki in Riyadh... Khashoggi indicated that he expected Gates to be prepared to sit down with Hashim to discuss specifics on how Hashim should be compensated and thereby get back on our team for Phase III. K... had discussion with George Sterling... and assumed... passed on to Gates.... Jones reportedly unhappy with lack of communications.
 It is now expected that Gonzalez will handle this matter on his trip. The recommendation made by Khashoggi is that Hashim be paid now an amount equal to approx. \$200,000 to \$250,000 and that he be assured of a 5% commission on Phase III. It is assumed that Khashoggi expects Northrop to make the first payment and that the commission on Phase III will come out of the 15% commission payable to Khashoggi under Northrop's contract with him. Gates indicated Jones had no objection to this arrangement; in fact, he appeared to be favorably inclined toward it. Gonzalez explained to Gates that Khashoggi is probably trying to negotiate... in order to avoid any payment now to Hashim out of his comm under Phase I and II.... followed a similar pattern with respect to Prince Khalid but

See page 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100

ended up paying... out of his commission... appropriate way of handling would be:

1. Agree to pay Hashim a fixed amount over and above his commission on Phase III, but only at such time as Northrop received a contract for Phase III, or
2. Make payment to Hashim now.... (same as c) on page 3 with the exception that no amount is specified).

The approach was discussed with Lloyd and he concurs that it is a probable one.

2. Khashoggi recommended to Gates that Northrop accept Lockheed's proposal to modify our understanding with Lockheed in connection with their being a subcontractor on Phase III.....
3. Prince Turki brought up with Jones and Gates the possibility of performing the final assembly of the F-5's in Saudi. He was not told that this is not possible or in any event impractical.

8-11-71 Wire Gates to Khashoggi/Gonzalez copy Watts

8-9-71 " Gonzalez to "

Both the above refer to Contina (Cantona) problem and reference to letter to Contina - provisions contain full discharge of the obligation of Northrop's rep (Triad) to Contina. No details indicated.

8-6-71 Letter Louis Lawler (Triad) to Watts

Re your letter dated 7-31 concerning Contina... I understand that it is intended that Contina will receive some portion of the commissions even though it was a gov't-to-gov't sale.

7-31-71 Lawler to Watts

Re letter dated 7-6-71 to Mort MacLeod, and as we discussed by telephone, assignment to Contina is as we intended...only in the event of a direct sale and none in the case of a gov't to gov't.

8-6-71 Memo Watts to Champion

NAU - Northrop Special Investigation

Review of Triad Correspondence Files
 (CONTINUED IN RH. CHAMBER'S OFFICE)

-15-
 Folder contains various correspondence to payments, estimated commissions, and assignments. Such detail not briefed as propriety of payments, approvals, etc. previously reviewed. Extracts below deal with relationship of consultant to Northrop and any other matters deemed pertinent to investigation.

11-2-71 Wire M. Gonzalez to F. W. Lloyd.

Re our telecon concerning possible advance payment to Trumpet. Eye not sure eye made things clear. ^{KHUSHMOGI} Wishbone of opinion no advance payment will be necessary and that conditional payment will be necessary and that conditional payment will be acceptable. Condition being payment only when and if ^{NORTHROP} Gardner awarded direct prime contract for Scissors. ^{KHUSHMOGI} Wishbone say he told by VJ and Gates that ^{NORTHROP} Gardner would make any advance payment required and no mention to him of risk being his. He therefore not willing to have total advance payment be his risk but he willing to quote share risk fifty/fifty with ^{NORTHROP} Gardner unquote. Risk being payment and then no contract to ^{NORTHROP} Gardner for Scissors. ^{KHUSHMOGI} Wishbone was not authorized by me to make any commitment on this basis but eye did say if his opinion that conditional payment would be acceptable proves incorrect we would consider other course during his visit to Hawthorne.

10-25-71 Wire Gonzalez to Lloyd/Kuska.

Met ^{KHUSHMOGI} Wishbone 22 Oct. in Beirut... No problem our not seeing Trumpet during my visit to ^{Saudi} Suff. Apparently Gates brief conversation with ^{NORTHROP} Trumpet during TVJ trip enough to keep him happy until he comes to Hawthorne... He (Wishbone) plans to be in Hawthorne same time ^{NORTHROP} Trumpet. ^{KHUSHMOGI} Wishbone confirms ^{NORTHROP} Trumpet soon to be kicked upstairs and replaced by ^{ZULAIR} Geranium. Additional amount to be split between those two to avoid all problems. Daisy in on discussion and he of opinion all went well and on course.

.....

December 14, 1971 This is a memo from W. T. MacLeod, legal counsel of Triad Capital Management International Inc. re Triad's position regarding its current controversy with Northrop.

A lengthy memorandum covering the statement of fact regarding Northrop's and Triad's relationship disputes on the contract between the two parties. This is for payment and other matters. ~~Below are~~ ^{Below are} excerpts of important points relative to our investigation:

a. Mr. Gonzalez stated that "Northrop intended to act in good faith, and construe the contract in light of the true intention of the parties, namely the payment to Triad of 4% of the sales price to the customer, and would not construe the contract strictly or literally, provided, that Triad "helped" Northrop, by ~~compensating~~ ^{compensating} HRH Prince Khaled by one half of one percent of the sales price of Northrop content in accordance with the oral request of HRH Prince Turki to Northrop, made in the presence of General Hashim, asking Northrop to pay such compensation. Mr. Khasshogi agreed to compensate HRH Khaled from Triad's compensation, and subsequent written documentation confirms this arrangement."

(b.) The rest of the memo deals with various disputed items as to what is the commission base and how it should be paid. I don't think it's necessary to discuss all those items in this memo.

1-17-72

Memo from Watts to Gonzalez with copies to Gates and Eddington. This memo discusses Watts' response to MacLeod's memo dated 12-14-71. Extracts follow:

a. "A lot of clarifications will have to be made to this agreement, as, beyond this, I'm seriously concerned that perhaps there is still not a meeting of the minds between the parties as to the business aspects of this transaction. Consequently, because this could be political dynamite, I think you should carefully review this proposal

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so that we can clarify any possible misunderstandings and be sure that both parties are in full agreement from this point forward."

- b) The balance of the memo discusses Watts' position on the matters discussed in MacLeod's memo. I don't feel it's necessary to include all these points in this memo.

3-14-72

This is an unsigned copy of a letter from Gonzalez to Triad c/o Morton P. MacLeod to the attention of Mr. Adnan Khasshoggi. The memo transmits the second amendment to the marketing agreement and also replaces the present product agreement number three with the new product agreement number three dated March 25, 1972.

- a. "As a material part of these transactions and as a concurrent commitment thereto, we understand that Triad agrees, at its own cost and responsibility, to absorb the extraordinary expense that was previously discussed with you by our Mr. C. R. Gates in connection with the Phase III work."

March 14, 1972

Memo from Watts to Gonzalez re Triad. This memo discusses the question of interpretation of what Khasshoggi's commissionable base on Phase III is.

March 22, 1972

Memo to file from C. R. Gates re telephone conversation with Mort MacLeod. This covers the question of advance payments to Triad on the signing of Phase III. There is nothing in there as to what the payments were to be used for.

3-24-72

Wire from Gates to Rogán in Beirut with a copy to Gonzalez.

"Re your request and understanding the need therefore it is difficult to change the existing agreement. However, without making a commitment at this time, we will do the best we can to try to fit one more point, which under the circumstances is as far as we can go even if we can do that. I will try to put it on a best effort basis and try to accomplish, with no promise at this time. If eventually we can do, the agreement then will have to be

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rewritten to reflect this increase. This is the best answer I can give you at this time."

-3-31-72

From MacLeod to Watts. This is re problems of the scope of Northrop's agreement with Triad. The following is quoted from the letter: "Our intention is that Triad is covered for any and all sales with Northrop products in support of Peacehawk through 1976 and for a period of two years thereafter regardless of whether or not the sales include mosques, hospitals, bingo casinos, swimming pools, spare parts, or whatever, provided they are Northrop products and support the Peacehawk program whether manufactured by Northrop or purchased by Northrop for resale customers for delivery to the government of Saudi Arabia."

4-14 -71

A draft of a letter from Gonzalez to Khashoggi. This is basically the same as Gonzalez' draft, ~~number~~ of the letter from Gonzalez to Khashoggi dated 3-14-72, except the product agreement is now dated 4-14-72.

Also notes Triad's responsibilities to absorb the extraordinary expenses that was previously discussed with you (meaning Triad) by Mr. Gates.

4-17-72

Memo from Watts to Gates and Gonzalez re Triad. This memo discusses contractual problems with Triad. The following:

"The fundamental business disagreement remaining between the parties is a question of advance commission payments. This is a business decision for resolution by the Division and I assume cleared with Jim Willson. In essence, Adnan claims that it is impossible for Triad effectively to operate unless Northrop is able to guarantee some minimum advance commissions to him which he can commit to necessary parties."

Adnan feels that his contribution should be financed by Northrop on the same basis as any other long lead time manufacturing costs. Consequently, he proposes and requests Northrop's commitment to guarantee Triad a minimum advance commission payment at least 30% of the anticipated commission value on each contract, with the right to discuss a higher percentage on a case

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4-24-72

by case basis, depending upon the circumstances of the particular order.

Memo from Watts to Gates re Triad agreements.

"Enclosed is a complete set of the Triad agreements that were included in your absence. The side agreements are extremely sensitive and should not be discussed with anyone unless Manny is consulted. However, copies of the basic agreements have been provided at Manny's direction to Milt Kuska, Bob McNamara and Jim Willson. Note that the Khasshoggi letter of April 14 concerning BSR provides that the assignment of commissions to Souki only covers the airplanes and does not extend to any of the other Peacehawk activities. Adnan stated that he will handle this matter directly with Souki and on the same basis with Cantona. I have no concern at all about Cantona, but in the case of Souki, Manny seems to feel that it would be desirable for you to apprise him of the situation by providing him with the confidential copy of Adnan's letter of April 14."

(Noted - ~~was~~ I ~~was~~ unable to locate a copy of referenced letter in the files.)

4-24-72

Memo from Watts to Gonzalez re Triad. Copies of the Triad agreements and included therein the following statement:

"Under separate cover, as we discussed, I will send copies of the basic documents to Milt Kuska, Bob MacNamara and Jim Willson, leaving out those sensitive documents not pertinent to their knowledge."

5-12-72

From Bob Watts to the file re telephone conversation with Manny Gonzalez regarding his telephone discussions with Adnan Khasshoggi and Prince Khaled concerning Cantona/Saudi Arabia. There is a note from Watts transmitting this to Gonzalez ^{stating} that this is what he put in his file with a copy to Bob Gates. If accurate you can retain this copy or destroy it as you see fit. The following was included in this memo:

1. It was agreed that Cantona will receive 1/3 of 1% for Peacehawk Phase III from Triad's commissions. This the same arrangement that is in effect between Triad and Cantona for Phase I and II.

Although Triad has agreed to make this payment, Manny does not know how it will be implemented. Hopefully, it will be taken care of directly by Triad, otherwise, Northrop will receive another notice of irrevocable assignment covering this one half percent.

2. He stated that it was impossible for Northrop to make any additional separate payments to Cantona for Phase III.
3. ~~They~~ were anxious to see Lockheed participate in Peacehawk as Cantona is covered by a separate agreement with Lockheed, and therefore, could obtain benefits through this arrangement if Northrop gives Lockheed Peacehawk work. Manny responded only by stating that discussions were still in progress between Northrop and Lockheed, but that no final decision has been reached between the two companies.
4. Manny said he made no commitment whatsoever to arrange for additional payments to Cantona, either directly by Northrop or by giving Lockheed part of the Peacehawk work.
5. In the second telephone conversation, Manny acknowledged directly to the Prince his contributions and thanked him for his continued assistance. And because of these services, Manny indicated that if Cantona is involved with other Companies that supply services that Northrop will need for Peacehawk, Northrop will certainly consider placing orders with these Companies, but with the understanding that any such purchases would be subject to procurement being competitive in price, quality and schedule.
6. Khaled stated that Cantona was in a position to enter into a representation agreement with Dyna~~e~~lectron. Therefore, he asked if Northrop would consider using Dyna~~e~~lectron for service support work. Manny replied by stating that he could not use Dyna~~e~~lectron in this area since Northrop would much rather work with Lockheed, who have experience and a good reputation in Saudi Arabia, and its personnel are trained, qualified and available, whereas Dyna~~e~~lectron is an unknown quantity.

6-7-72

Letter from Gonzalez to Lou Lauler. This letter discusses the fact that Northrop just received a signed letter contract from the U.S. government covering Phase III work. It discusses various items ~~about~~ about the method of payment advances ~~and~~ other matters including the following:

"We have treated the liquidation of the 1.5 million dollar advance and it's interest expense per our agreement. The \$250,000 separate advance which is non interest bearing has been deducted from the final payment."

7-12-72

Wire from C. R. Gates to (it appears to be to) Adnan Khasshoggi. Various information copies to Northrop personnel. The following is extracted from the wire.

"We have decided to proceed towards Phase IV along the lines we have previously discussed with you.....We will handle the incentive NBR that you and I have discussed, which, as we have also discussed must include all interested parties. This message gives you the authority to proceed towards the objectives that we discussed when you were here."

8-14-72

Wire from Lauler to Gates re your telexes August 4 and August 11.

"Northrop can count on Triad's full support Phase IV" proposal. However, Adnan regrets that Northrop has made the job more difficult by not agreeing to request relayed by Lauler on July 14."

(I did not see anything in the file regarding requests relayed by Lauler on July 14.)

8-14-72

Wire from Gates to Lauler

"If Adnan's request of July 14 was the one that we discussed when you were here, Adnan must realize the difficulty and impracticability of meeting request and the relatively small difference which would have resulted in comparison to what we are now talking about on Phase IV. I suggest that we all proceed with maximum effort on this large upcoming project."

8-14-72

Wire from Gates to Kiasshoggi information copies

Extracted from the wire is the following:

"Recall that current USAF letter of offer has one September expiration and it would be highly desirable for high local official to respond to U. S. Embassy that we would like to initiate discussions in pursuit of letter of offer. We are aiming for Sept. 15 proposal completion date and need to have receptive atmosphere for submittal of proposal at that time."

8-15-72

Letter from Lauler to Gonzalez

"Refer to your letter to me of 7 June 1972 concerned with Phase III schedule of payments. I assume that the \$250,000 separate advance refers to that sum which resulted from Mr. Jones' commitment. It was my understanding that this payment was an obligation of Northrop and as such not deductible from Triad fees. Has there been a change since our original understanding?"

8-29-72

To Gonzalez and Kaуска the wire indicates the following is an incoming Paris report NBR152A dated 8-28-72 which was from Cochran/Sterling to Gates re subject telecon Lauler/Watts 24 August.

"I advise pursuant to applicable contractual provision and ~~Watts~~^{RIGHT} considerations both contractual and business, that his request was non-acceptable and therefore we can not make advance. I stated matter a concern of his principal and affiliate and should be resolved exclusively at that level. Lauler accepted answer as a closed issue however stated subject telecon subsequent to the above with Watts. Held Lauler/Gonzalez "After all, it is such a small amount it should not represent any difficulty." Therefore Lauler requested that if a request for dollar amount advance loan similar to previously made to outside framework of contract was made, would this be acceptable? ¹⁵⁰⁰⁰ That such a small amount should readily be handled within his principal's house. However on a corporation to corporation basis with application made through Robert Gates, I felt it would be favorably

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reacted to, until eligible Phase III advance payment date of approximately end of October. He agrees to consider such course before taking any further action possible through MacLeod's office.

Entire discussion on friendly climate, however, I maintained fair but firm attitude. He expressed appreciation for our new Corporate posture in country.

10-6-72

Wire from Cochran to Gates Report No. 179 dated 10 Oct. 1972. J. Cochran from C. R. Gates (in Paris) this is in reply to my telex as follows:

"Received following quoted message from Rogin re Surf- "Kutay reports that during a top level Northrop meeting last October Reyadh/see Gates on this/a certain allocation was agreed upon for ^{KHASHOGGI} Wishbone believes present time will be most appropriate to fulfill that allocation in view of future cooperation." Firstly, discussed issue with Manny who claimed no background knowledge other than possibly ^{KHASHOGGI} Wishbone attempting similar exercise to previous efforts in behalf of Trumpet. I intended to place ball squarely in ^{KHASHOGGI's} Wishbone's court and will not entertain any idea that Northrop "fulfill that allocation." It is strictly ^{KHASHOGGI's} Wishbone's responsibility. Hope you concur and if so, appreciate your advice. Secondly, I will handle this matter with ^{KHASHOGGI} Wishbone at same time as the ^{KHASHOGGI} Wishbone/Souki fiduciary relationship is nailed to the deck, presently targeted before mid-October."

10-10-72

Wire from J. Cochran from C.R. Gates

"Although general discussions were held regarding possible (, I certainly agreed on no fixed amount and left entire question open depending on the events that were to occur defining position, Any participation would be within previously agreed amounts, which has always been made clear to Wishbone (translation ^{KHASHOGGI} Khasshoggi). Perhaps ^{KHASHOGGI} Wishbone is correct that now is appropriate time, but

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I think we should discuss entire subject, including past Trumpet (translation consideration. I need to know Cochran's travel plans and possibility of our discussing subject within next days. Bobby has my schedule, which I am currently adhering to."

10-27-72

Memorandum to Gates from Adnan Khashshoggi re Northrop - Triad outstanding matters.

"In anticipation of our meeting on Friday Oct. 22, set forth below is a synopsis of outstanding issues to be resolved between us:

a. Product agreement No. 5 - Phase IV. Ambiguity in agreement regarding coverage under direct sales in compensation rates. Copy of product agreement containing Triad's revised language was attached.

b. Compensation - Phase III:

"Northrop proposes to deduct from compensation payable under the Phase III program the sum of \$250,000 (see letter from M. Gonzalez of 7 June 1972 attached). This is clearly not in accordance with our prior arrangements for ^{which} we undertook to cover certain expenses for Northrop in return for an adjustment in items to be covered by our rate of compensation. The subject \$250,000 was at that time an outstanding obligation of Northrop which you agreed to honor independently and was therefore not included in our accord."

c. Advance - Aircraft and Phase III. This section Khashshoggi requests advance payments to be increased from the 30% already approved to 75% of the commissions due under the programs.

d. Assignment to BSR - Phase III:

"Mr. Robert Watts has notified us that the assignment we forwarded to your office in favor of BSR in covering Phase III is not in accord with his understanding since it assigns one quarter of 1% instead of 1/2 of 1%.

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In this regard, please clarify for Mr. Watts the agreement reached in the meeting among ourselves, Mr. Souki and Mr. Roosevelt."

e. Relationship BSR:

"In order to resolve problems reflected such as that in d above, I believe that it is necessary in future, and beginning with Product agreement No. 5, to proceed on the basis that any compensation rate set forth in such product agreements is a compensation to Triad and does not include any compensation to BSR. If, after execution of any such product agreement, Northrop wishes the past compensation to BSR through Triad, it may do so by adding such compensation to BSR to the compensation rate set forth in the relevant product agreement and Triad will execute an assignment such additional compensation."

f. Assignment - TFE to TIM:

Discusses assignment of all of Triad financial arrangements & compensation under existing agreements to Triad International Marketing S.A.

11-17-72

Memo from Gates to Gonzalez, Kuska and Watts re Northrop - Triad.

This discusses Gates' response to Khashshoggi's memorandum dated 10-27-72.

1. Product agreement No. 5 - IV.

Increase in fee for BSR - Phase III.

2. "It is my understanding that AK's correct in his assessment here, and that the 250K was ours to pick up, and was the subject of my February visit to Saudi Arabia, which Gonzalez asked me to take. We used AK's account merely as a mechanism to get the 250K to the recipient."

3. Advances:

"AK's basic contention is that he needs these advances in order to continue preparing the groundwork for follow on F-5 purchases during

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the Saudi 1973 budget year. It appears to me that the climate at Northrop is not very conducive to meeting his request but we should consider it, as we have told him in the past, we would do."

4. Assignment to BSR - Phase III - extracted is the following:

"Souki has conceded that we should go ahead and process this $\frac{1}{4}$ from AK and has asked that we find the additional $\frac{1}{4}$, i.e., approximately 300K, from some other part of the program at some time in the future. Possibility of it coming from some future arrangements with Souki and perhaps could be included in follow on aircraft by him. He is not pressing for an immediate solution, but would like for us eventually to find the other $\frac{1}{4}$ in concert with our intended commitment at the outset, although the legal paperwork does not seem to exist."

5. Relationship with BSR

It has become clear that in any future programs in which Saudi and BSR are involved, we should execute the agreement directly with BSR and not through Triad. There are too many complications, changes in potential problems and hard feelings. AK has agreed that in his negotiations with the customer he will include BSR's fee as well as his as an overall number to be included.

6. Assignment - this is the legal manner in which we have to ensure that Northrop does not end up with any problems as to releasing TFE from its responsibilities.

Subjects to be resolved: (1) When we settle our position on product agreement 5 for Phase IV, we should clarify to Souki his position in the commissions structure. (2) Determination on the commitment to

(3) Ensuring that our systems with Cochran in the communications loop between Northrop and the U.S. and Triad on such matters as the above. If there is any lack of clarity of responsibilities between the various

-4/-

elements of Northrop and Cochran, these must be clarified.

12-6-72

From Rogan to Gonzalez re Surf (Translation Saudi). Subject matter of this wire was for information on commissions earned on each agreement with Triad or commissions to be earned on Phases I through III. Information was to be mailed to: c/o Gerald Boissier, 4 Rue Du Mont Blanc, Geneva Switzerland att: Lou Lauler transmitted a project which was going to be in Saudi and whether Northrop was interested in participating in any way.

1-3-73

From Lauler to Gonzalez - various commissions due to Triad on Phases I, II, and III. The following is an extract from this letter:

"Enclosed a copy of Mr. Lauler's letter to you of 15 Aug. 1972 concerning the treatment of the \$250,000 'advanced.' ~~This~~ ^{was} raised by Mr. Khasshoggi in a meeting with Mr. Robert Gates in Beirut on 27 October. Mr. Gates affirmed at that time that the \$250,000 was a Northrop commitment which would not reduce Triad's fee."

1-8-73

A letter from Samer Souki to Gates re press clipping - A. Khasshoggi. He encloses a translation of an article which appeared on Jan 3, 1973 in the "LeCanard Enchine, a French satirical weekly." Concerns Khasshoggi and has caused a lot of comment in Beirut. ~~that~~ ^{he} ~~he~~ doubts that there will be any backlash in the immediate future. However "We have often discussed the possibility that we may have to reconsider the relationship with Khasshoggi in the future. I would certainly not recommend it at this time but I intend to look quite seriously into possible replacement in the event that developments make this necessary." Naturally, my investigations will be discreet and I will report further to you before we take any action." The article discussed a scandal in Lebanon regarding the purchase of French arms. The article describes Khasshoggi and states the following: "A Saudi citizen displays a portrait of Mr. Nixon with compliments autographed by the American President. This President apparently appreciated the

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contribution of his friend in his electoral campaign (a million dollars, it is said). And as a result of the many special friendships that Mr. Khasahoggi has in Washington, his enemies say that he is on the best of terms with the CIA, the base of the U.S. Special Services."

1-16-73

Letter from Gates to Khasahoggi. This letter is in response to his memo of his meeting Khasahoggi's memorandum of Oct. 22, 1972. From this letter is the following:

"With respect to the \$250,000 first paid under Phase III which we have shown in our estimated payments schedules as a Triad obligation and which you have stated should be a Northrop obligation, we believe there is an honest misunderstanding. It was Northrop's intent that this should be a Triad obligation, however, this was not made clear to me and I acknowledge that in turn did not communicate this to you. It was, nevertheless, clearly agreed to at that time that Triad would be obligated to make payments equal to 1½% out of this 5% on any construction work included in Phase III. The construction work included in Phase III amounts to approximately 20 million dollars, 1½% of which would equal \$300,000. We now have agreed that there is no longer a requirement to pay out this 1½% therefore, Triad will be in a position to retain these funds. Along similar lines we are preparing to follow your counsel and pay to Triad another \$150,000 to be used by you in a similar manner as was the first \$250,000. The \$150,000 and the \$150,000 will be treated in the same fashion: that is, an advance to Triad, non-interest bearing and to be liquidated against last payments due to Triad under Phase III. Incidentally, if these combined sums were to bear interest, it would amount to in excess of \$90,000. Manny Gonzalez has reviewed all of the above with Mr. MacLeod. It is my understanding that these payments and the above describe treatment of them as reflected in the schedules which were used by Mr. MacLeod in his recent loan dealings on your behalf with the Bank of America." The balance of the letter deals primarily with the assignment

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to BSR in the amount of the advances to be paid.

1-25-73

From n W.I. Lightfoot to C. R. Gates re agreement with Adnan Khasshoggi. Letter discusses various matters on commission payments due Khasshoggi primarily the amount of the commissions and what portion should be assigned to Souki.

2-12-73

Letter from MacLeod to Gates:

"Adnan has asked that I reaffirm to you his current understanding that the marketing expenses incurred in the sum of \$150,000 and \$250,000 would effectively be paid by Triad out of commissions which have been increased by the total of these two amounts."

2-19-73

The letter from Gates to MacLeod re 2-12 letter concerning \$150,000 and \$250,000.

"Our position is that the \$250,000, which has already been handled, and the \$150,000, which I hope we can get handled in the near future, is a part of Triad's obligation and is to be liquidated against the last payment due to Triad under Phase III, as \$250,000 has been previously shown in the payment schedules. In Watts' letter of 21 April 1972 to Adnan and you, he clarifies everyone's agreement that it is Triad's obligation to take care of the special commitment up to one million, five hundred thousand in the event that the total facilities under Phase III, and/or what would have been Phase IV were to be purchased at the full price. In Phase III, the amount of the facilities was reduced considerably and the one million five hundred thousand dollar commitment was reduced to approximately \$300,000. However, we have agreed that there is no longer the requirement to pay this \$300,000 because of requirement, and therefore, the \$300,000 now exists as part of Triad's commissions but without the requirement to pass it on. Hence, it is Northrop's position that we will, at the earliest possible time, advance \$150,000 to Triad to handle expeditiously and that this \$150,000 will be liquidated against the last payment due Triad under Phase III but does not

J-3-

represent an increase in the total commissions to Triad other than has been reflected in the \$300,000 discussed above. I hope this clarifies this situation. If you inform us in the near future as to the manner in which you would like the \$150,000 advanced to Triad for your handling, we will act promptly."

March 5-73

Wire from the ASD WFFB Ohio. To A. F. P.R.O. Northrop Corp., Hawthorne
Subject unusual costs of doing business with a foreign government.

Wire is stamped routine. It deals with the Saudi sales commission or agent fees as to whether they were part of the P&A study to which Northrop contributed cost data which led to the signed letter of offer and acceptance between the foreign and U. S. Government.

"Request information in accordance with as per regulations concerning the qualifications of the bona fide established or selling agency maintained by the contractor, etc."

3-27-73

In response to the aforementioned inquiry regarding Saudi commissions.

This says we wish to advise that although this element of cost was not specifically identified it was included in the cost information furnished.

4-2-73

From a J. Gaston Kent, Captain USAF requesting information re the full details and background of Northrop's agreement with Triad.

4-3-73

Memo from Gates to ~~Caslow~~^{CASLAN} re unresolved problems in Saudi Arabia

"As of our last meeting, the result around your table was that this is AK's problem to solve and that we are not going to provide the solution ourselves. It is very clear that AK thinks this is Northrop's problem to solve but he is not going to take care of it. He firmly believes that he had a commitment from Northrop that we would take care of this situation, and I am convinced he is not going to move.

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Inputs from several people, such as Ben Collins, Glen Lord, Sam ~~der~~ Souki and Kim Roosevelt, establish that the individual in question is not going to take a very positive attitude towards Northrop programs until this problem is settled. Hanging in obedience is the NADC proposal on Cantonments, the follow and buy of FSE's plus perhaps a few other programs in which the RSAF would not have input to the decision. I am convinced that we are not going to get this positive input in the current environment.

Either of two things has to be done: (1) Northrop reaffirms that this is AK's problem and we are willing to suffer the consequences of delay or lack of success in at least the two previously stated programs, or (2) we agree that Northrop will provide the resources through AK for the situation to be settled to the individuals' satisfaction.

Although this is an unpopular subject it is absolutely urgent that it be settled within the next few days."

4-30-73

A memo from C. R. Gates re FSE-Saudi Arabia's relationship with Arab nations.

Memo discusses various matters such as Saudi Arabia relationship with Egypt, Saudi relationship with Gulf area states, FSE follow-on procurement for RSAF, and Lightning Interceptor replacement for RSAF. Transmission of information retained from Khasehoggi regarding various sales possibilities and other information in those areas. Indicates that Khasehoggi would like to have Northrop's position on various matters and also Khasehoggi was asking for Northrop's positions on those programs ~~and~~ which ^{THEY} want and would like him to be involved. ^{THERE ARE NO} ~~A~~ matters covered in the memo that are pertinent to our investigation other than the fact that Khasehoggi apparently keeps Northrop informed of arms procurement matters in the Middle East.

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May 3, 1973

Memo from Gates to ^{CONSIDER} ~~CONSIDER~~ Lloyd, Kuska and Consales. Re F-4 for Saudi Arabia/Triad representation.

This memo refers back to Gates' memo dated 4-30-73 and addresses itself to the possibility ~~of~~ ^{of} allowing Khasahoggi to become involved with the procurement of another aircraft other than Northrop's in the Middle East.

5-16-73

Letter from Gates to Khasahoggi. Discusses in detail Northrop's position on the matters described in Gates' memo of 4-30-73. There is ^{nothing} included in this letter ~~which~~ which I feel ~~is~~ pertinent to the investigation.

Undated

Draft of a letter ^{unsigned} ~~unsigned~~ from Manny Gonzalez to MacLeod.

This letter apparently was never mailed. Addresses itself to the ~~allowability~~ ^{allowability} of commissions paid to Triad and the audit review being conducted by the U. S. Air Force for allowability and reimbursement. ^{IF ALLOWABLE A} ~~Statement~~ regarding Triad's right to receive commissions is still subject to the approval of the U. S. government.

6-20-73

Memo from George Gore to Gonzalez re Peacehawk commissions.

This letter summarizes Gore's response to questions raised by Mr. Gonzalez concerning Triad's commissions. His answers were as follows:

(1) The payment of commissions to Triad on the Peacehawk program is permitted by U. S. law. (2) Subparagraph 2 G of the Oct. 4, 1970 marketing agreement is still in full force and effect. The effect of subparagraph 2 G is to limit commission payments to Triad to the amount approved by the U. S. government ~~has~~ recognized cost in the negotiation of contracts with us. ^{THE MEMO} ~~It~~ goes on to further details and indicates that his conclusion was that both parties intended to revise a marketing agreement so that the amount of commissions payable to Triad was not restricted to whatever amount was approved by the U. S. government.

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8-20-73 Letter to Triad from Gates. ^{THE LETTER IS} consent by Northrop of a deviation under the marketing agreement to Triad's representation of British Aircraft Corporation, Ltd. concerning sale of Jaguar type aircraft to the government of Saudi. Aircraft for resale or redelivery to Egypt.

8-20-73 From Gates to Triad.
 Was Northrop's consent for a deviation under the marketing agreement to Triad's representation of McDonnell Douglas concerning its sale of F-4 type aircraft by the use of the government of Saudi Arabia.

9-11-73 From Gates to Triad
 Consent for Triad's representation of British Aircraft Corporation.

9-11-73 From Gates to Triad-involves transmittal of agreements concerning consent for Triad to represent other companies.

9-17-73 From MacLeod to Gonzalez - Confirmation ^{THAT} subject to Triad's receipt of \$33,160 ~~that~~ they fully release Northrop from all claims that they now have against Northrop ^{for} compensation out of the Phase I of the Peacehawk program. ^{THEY WERE ALSO} subject to Northrop holding Triad harmless against any claims for compensation under the afore-mentioned Phase I made by BSR.

12-3-73 Memo to file from Gonzalez - copies to Lloyd and ~~Gates~~ ^{ORSH}.
 Addresses itself regarding Saudi commissions - ~~the amount~~ ^{ADVISABILITY} of such commissions to Northrop. It indicates that a wire was sent to Ambassador Aikens in country and was signed by Henry Kissinger. Message indicated that it was understood that there were many important matters involved in the U. S. and Saudi relationships but that among them was the subject of commissions. "The message, according to Orsini, (Orsini is a Captain in the Airforce who is involved in F5 program review), covered the conversation I had with Khasnaghi and his conversation with Sultan. It pointed out

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this was a very sensitive subject and indicated that, if this matter couldn't be resolved, it could cause quite a loss to Northrop since we do have a firm agreement with Khasshoggi. It stated that Sultan was reportedly prepared to indicate that agents were acceptable on FMS cases and that something in the range of 5% would be deemed a reasonable fee. It also asked Aikens to report immediately on any conversation he has had with Sultan on the subject." The memo goes on ~~and~~^{to} state Gonzalez' contact with Ben Collins regarding the follow up by Aikens. He received a message on Nov. 29 from Collins concerning his meeting with Aikens: "Aikens had met with Sultan a couple of times. Sultan has never mentioned fees, such as to Khasshoggi, to Ambassador Aikens. Aikens understandably takes position he will report to U. S. government whatever Sultan tells him, but Aikens will not take the initiative to find out. I briefed Aikens that this was ^{the} only hold up on definitization. Aikens told me I'd better find Khasshoggi and get him to speed up Sultan....."

12/7/73 From Gonzalez to Lauler-subject appointment of Mr. Paul Champion, Gonzalez' executive assistant ^{was assigned} with responsibility for business relationships between the Aircraft Division and its International Sales Commission agents.

January/74 The Airforce to Northrop indicating that all ~~restrictions~~ on payments of Peacehawk fees have been removed.

No date ~~for~~ Contains various correspondence between Northrop and the Air Force re payment of agency fees and the inclusion of such fees in the Peacehawk contract.

3-8-74 To file from Champion re discussions with Souki and Khasshoggi. Describes a meeting at the Corporate office. ^{for} attendance for Northrop was Gates, Kouska, Gonzalez and Champion. ^{from the} Arrival of the Trinidad people, Souki discussed his requirements with regards to the consultant contract

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covering the territory of Lebanon. Such requirements were 3% of the bottom line, ^{Northrop was aware} that they would write such a contract, but the 3% would be subject to prior approval of the USAF as to reasonableness. The possibility of procurement in Sudan was discussed. ^{There was a possibility} that the purchase would be financed through Saudi Arabia. The agent would be Salimissa who is a Lebanese national and was instrumental in obtaining the ~~the~~ ^{EARTH STATION} station for Page. ^(Souki) He raised the point about being short changed about a quarter of 1% on the Peacehawk III program. ^{He said} that the sum which amounts to approximately \$275,000 should be made available to him. He was advised that there is no way Northrop can make such a payment except out of their own funds. Another Saudi program was in the offing which was a logistic program in Saudi similar to the ~~Peacehawk~~ ^{BACKSTAY} program, except that it would cover aircraft other than the F5 and that it might be possible to recover some or all of the 4% for Souki. ^{It was discussed} between Gates and Kouska that Souki's relationship with Northrop would be reviewed and more clearly defined as to what activity fell within the scope of the retainer fee and which fell under commissionable sales.

Peacehawk III program was discussed and AK's commission thereon. Gonzalez pointed out that U.S. government policy on follow-on programs ~~was~~ ^{they} should carry a lesser commission than the initial programs. ^{He} pointed out that he had advised General Trimble that Northrop had a contract with Triad which covered follow-ons through 1976 and that commissions would be included at the same rate as the initial program. AK's recommendations were requested as to the approach to be taken with the USG. These were: a. To reduce the commission by a small amount in order to show good faith; b. To come in with the entire commission and fight for approval; c. Obtain the assurance of Saudi Foreign Minister (Omar Saqqaf) or Sultan that a 5% fee is usual and reasonable. In this instance K wants to put in the entire 5% and he would talk to the Saudi

Foreign Minister upon his return to Saudi. ^{Follow-on} F5E aircraft which Saudi desires and which the Sultan had requested a Letter of Offer was discussed. Sultan is somewhat upset because this had not been forthcoming. That because of a study of Saudi requirements had been requested, perhaps that precluded or eliminated the necessity for a Letter of Offer on the 50 aircraft follow-on. This is not the case, they want the Letter of Offer and the study ^{of} subsequent requirements.

AK has asked Northrop for a white paper (Kuska getting this ^{from} Tanner) outlining the required dates for all actions necessary for Saudi follow-on programs and he will check on these on his return to Saudi.

March 8, 1974 Letter from Khasehoggi to Gonzalez, subject to Triad's receipt of the sum of \$33,160, they hereby fully release and discharge Northrop from all claims they now have against Northrop for compensation arising out of the performance of Phase 1 of the Peacehawk program. (Earlier a previous release form was issued and this had the qualification of Northrop indemnifying Triad against any claims by BSR)

5/6/74 Memo from Champion to Kauska re follow-on Saudi proposals. Letter outlines discussions with Major General Trimble and other air force personnel regarding follow-on Saudi proposals and the inclusion therein of commissions. ^{inclusion} ~~inclusion~~ of such commissions was discussed as well as Trimble's feeling that follow-on commissions should be less than on the additional sale, and further, why pay any agent at all. At the outset of the program agreements were made committing Northrop to COMMISSIONS over a specific period of time and that they were bound by the agreements. He (Trimble) then agreed that Northrop was probably correct and that the U. S. Government should not take a position forcing Northrop to renege on an agreement. Trimble asked Captain Orsini to check on the current political climate between the U. S. and Saudi to determine whether it would be advisable

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at this time to seek concurrence of the Saudi Government as to the payment of commissions. He pointed out that previous agreements to the Phase III commission was the result of not wanting to embarrass ^{anyone} in light of the touchy situation during and after the October ~~Mid-East~~ war. He then suggested that Bob Gates see that AK gets the word that the subject of assurance from Saudi Arabia that the commissions are reasonable may arise again. ^{when} The U.S. Embassy talks to the Sultan the Embassy should be advised that the figure of 5% is considered reasonable. ^{FE IT WAS SAID} That the commissions are usual and the fees would be considered reasonable in the area of perhaps 2 to 10%, as in such a case, we would have to support why it is not 2%.

5-7-74

Memo from Champion to M. Elkin re Saudi Phase IV commissions.

This memo discusses the commission base on the Phase IV program.

5-7-74

A signed letter from Champion to Major General Robert F. Trimble.

This letter ~~was~~ transmitted information regarding the magnitude of the agents fees in connection with the Saudi followon in-country program.

It indicates that they have had direction to propose the program on a 40-month basis instead of a 24-month span upon which the figures which he had previously mentioned were based. ^{also} Enclosed for Trimble's review and comment ^{were} consultant agreements in connection with ~~perspective~~ sales to Lebanon and Ecuador. ^{the purpose} ~~for~~ sending Trimble selling agreements was to develop mutual understanding of each other's requirements so that Northrop might conclude its agreements with foreign sales representatives by a higher degree of assurance. ~~Those~~ agreements would be satisfactory ~~and be made known~~ to all parties such as stated in this letter.

5-7-74

From Gonzalez to Gates re fees on Surf followon. ^{was} A translation of the code symbols ^{the} attached. ~~was~~ ^{code} symbols are shown parenthetically ^{below:}

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Champion had meeting with Trimble. He indicates maybe climate has changed sufficiently. Position between Atkins (X-Ray) and Sultan (Toast)

occur this time around. We assume inquiry along those lines will be sent to Atkins ^{we suggest} attempt get that word to Collins (Halo) so he can track at that end. Also advise Khasahoggi (Wishbone) of this possibility and that he should have him prepare for a discussion along lines we recommended before including reference to a specific percentage.

5-8-74

5-7-74

Wire from Souki to Gonzalez - Gates message was relayed to Collins.

Wire from Champion to Gonzalez re Phase IV Saudi program commissions.

"Normal commission payable against Phase IV's 5% total costs less excludable items. The third amendment to the marketing agreement provided for additional compensation to be paid our agent in the amount of \$450K which has been paid. This is not an advance payment; but there is additional business on the F5 program (except for aircraft) the above sum may be deducted from commissions due under such new business. If there is no new business the sum is not recoverable. If however there is a sale prior to the expiration date of Oct. 4, 1976, and Northrop takes the credit, then the contract is automatically extended for another five years from the date of the sale. ^{showed} The only provision of our agreement whereby the contract extension is automatic. Therefore if we allow the contract to expire it would involve forfeiture of the possible credit of \$450K. It is possible that such course be advisable as it would indicate that we were not disposed to continue our present contract beyond Oct. 4, 1976. Such an indication on Northrop's part could lead to (A) Intensified effort to make a large volume of sales prior to 10-4-76. (However sales of F5 products up to 10-4-78 are commissionable if sold on a direct basis) (A) We might be able to negotiate a new agreement in terms more attractive to Northrop and U.S.G. (C) Agent might start pushing

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for sales after 1976. ^{Pharmaceutical} Agent might desire to terminate the agreement now and start a new relationship with a competitor. ^{if we credit} \$450K to future sales, we extend that agreement for five years. If not, it will expire Oct. 4, 1976. However, we might be able to negotiate something in between which would be more advantageous than the current agreement."

5-9-74

Probably 5-9-74
Memo from Champion to Gates, Gonzalez and Kouska re Phase IV Saudi program commissions. The memo is to clarify memo dated 5-7-74 and to provide them with additional information which will support a course of action. The Phase IV program which will produce 6 to 10 millions in commissions is covered by product agreement No. 3 with Triad, and if the \$400K payable referred to in my previous memo is taken against this sale - then product agreement No. 3 will be extended for five years.

A possible place to take the credit is against the CONDETOT Program, which falls under product agreement No. 2 and carries a rate of commission which is 1% lower than product agreement No. 3. Commissions payable under the CONDETOT Program amount to about \$56K for the initial program covering engineering services and depot operations. Maintenance, repairs ^{and} ~~and~~ ^{services}, etc., could add commissions as much as \$200K over the next year (contract runs to 8-31-75). If we take credit on either (not both) that product agreement will be extended. If we take a little on each, they both will be extended. It is expected, however, that the CONDETOT Program will be extended beyond 8-31-75 and that eventually the commissions might be \$450K."

5-14-74

Wire from Ben Collins to Gonzalez ? (translation indicated Khashoggi) informed CRG that a decree is expected shortly which will require use of nationals such as his organization. Suggest you discuss with Bob on his return. In the meantime, I will see what can be found out.

5-14-74

Memo from Gonzales to ~~Gonzalez~~ ^{Gates} re commissions on Saudi Phase IV

Setting forth an estimate of the amount of commissions on Phase IV based upon the indicated scope of work. This amounted to approximately \$12 million. *It went on to state*

That "for a followon effort this, of course, will raise many questions and should run into considerable difficulty; however, three things will be kept in mind in this connection:

1. Our contract with Khasshoggi provides that he will receive a commission only to the extent that we are reimbursed for it. I'm sure that Khasshoggi is not really aware that this is the way that reads, but if we have to make him aware of it, naturally we will.
2. For some period of time, Khasshoggi has been indicating that a decree, (equivalent of a Saudi law,) will be published not only authorizing the use of agents, but, in essence, make them mandatory. We have received word from Ben Collins that according to Khasshoggi such a decree is expected momentarily.
3. It is currently planned that the followon effort will be incorporated into the existing contract by amendment rather than covered by a new and separate contract. The existing contract provides that "any amendment or modification to this definitive contract, including termination hereof, which increases or decreases the contract price, will be subject to the application of 5% commission fee pursuant to the sales agreement and the price of CLIN 0015 will be adjusted accordingly." Therefore, if the current plan holds, the additional effort will be simply an amendment to the existing contract and automatically the 5% commission fee will be recognized.

5-23-74

It behooves to follow up
Memo from Gates to Gonzales to get the Saudis to officially come forward to the U. S. Ambassador and acknowledge that the use of representatives at a reasonable compensation. That he has talked to Khasshoggi and that

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he had been advised not to do so since there is supposedly a new royal decree coming out in approximately 60 days, which requires foreign companies operating in Saudi to have in-country representatives. It goes on to indicate that we will continue to monitor the status of the decree so that we can determine specifically how we can proceed.

7-12-74

From W. Tanner to Ben Collins

NUSUB review at Mass, (translation SAMC) 11 and 12 July went smoothly.

Presented volume I ?

(translation USAF) program description draft copies our version of supply and construction. Aza received with appreciation. To our basic figure we can add social insurance which make number Y (translation 301).

Groman will add the contingency factor later. Believe he is thinking of T (5%). On morning of 12 July, Groman briefed Mass. No hitches.

Groman briefs Satan (translation AMEC) on 16 July and Holt 17-19 July.

Holt team will depart for Whip (Saudi) 24 July. Hush (Moline) will depart

22 July. Rest of team to depart 24 July. Will advise team composition

early next week. Groman and McCrocklin completely non receptive to

pricing G-1 in not to exceed price ^{assumes} of concern about gold plating.

"NORTHROP PRIMA" (Undated, app. 1970 or early 1971)

II. SAUDI ARABIA

A. Aircraft Acquisition

The Letters of Offer and Acceptance (which is the standard DOD form of contract for FMS cases) have been signed by the USAF and the Saudi Government for 20 F-5B and 30 F-5E aircraft. These contracts are for approximately \$35 million and \$105 million respectively and include modification costs to incorporate the peculiar requirements established by the Saudis (i.e. T-38 display system in the F-5B, Recce Pods for the F-5E, etc.), plus mobile training sets, AGE and 2 years of operational spares. By the terms of the contracts, the costs are estimated only and actual costs are to be paid by the Saudis. Some of the line items have cost estimates which are tight, but in the total sense the cost estimates are comfortable. There should be no difficulty in delivering these total systems within the total costs estimated.

Delivery schedules are established for the aircraft in the contracts. No difficulties are anticipated in making these delivery dates. However, we will have to continue to work closely with the USAF to insure that necessary AGE and spares are delivered in advance to permit operation of the aircraft when delivered. The USAF survey team, which is now in Saudi Arabia, has indicated that this potential problem is recognized and action has already been initiated to solve this problem before it occurs.

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A unique feature has been used in establishing the contract payment schedule for the F-5E. The Saudis expressed a requirement for a schedule of payments slower than the standard cash dependable undertaking schedule contained in the contract offered to the Saudis. The original schedule called for 0% of the price to be paid in the first year, 49% in the second year and 49% in the third year with the remaining 2% in the fourth year. The schedule in the contract which was signed calls for 0% in the first year, 20% in the second year, 40% in the third year and 40% again in the fourth year. At 8% interest, it is estimated that this delay in payments will cost approximately \$4.5 million. This estimated interest cost has been added to the original total program cost estimate contained in the contract. Northrop has agreed to accept delayed payments under its contract from the USAF to accommodate the delay in payments desired by the Saudis. Northrop will be reimbursed its actual interest costs (including commitment fees and compensating balance requirements). Our peak financing investment should be approximately \$40 million and the average quarterly financing investment will run approximately \$17 million. This is the first time interest costs are to be recognized as an allowable item of cost under a USAF contract.

The cooperation and support from all agencies of the U. S. Government has been outstanding and in large measure is the reason why the period from proposal to contract was shorter and smoother than usual. The U. S. personnel in-country (particularly Ambassador Thatcher and Gen. Smith) were dedicated to making the sale and are dedicated to making sure that the program is a success in all respects.

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D. Maintenance and Training

The Saudi F-5 Program has been looked upon as being a three-phased program:

Phase I - F-5B's

Phase II - F-5E's

Phase III - Maintenance & Training

As indicated above, the first two phases are under contract. Phase III is a requirement and will be placed under contract within approximately six months or less.

The third phase will require approximately 300 people at peak and through 1974 should total approximately \$75 million in sales. This is business which Northrop should acquire and we intend to vigorously pursue. Our competition for this business is Lockheed Air Service.

At the suggestion of our Saudi sales rep, Adnan Khashoggi, we entered into an agreement with Lockheed approximately 6 months ago. This agreement, in substance, provides that Lockheed would support our F-5 sales effort and, if it is the expressed desire of the Saudi Government and Lockheed is designated as the overall maintenance prime contractor for all Saudi aircraft, Northrop would support Lockheed's maintenance effort. There are indicators that Lockheed was of some help in the initial F-5 sales effort although the value of this limited help is of some question. When the proposed nature of the sale switched from a contractor to government form to an FMS form (with a significantly reduced commission to the sales agent), Lockheed did suggest to Khashoggi and to Gen. (who

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would have shared in a direct sale commission) that the Saudis purchase the aircraft from Lockheed since they "know how to keep a sale from going FMS in order to keep commissions high." The switch, however, was directed by Prince Sultan, the Minister of Defense and Aviation (and Gen. boss), among other reasons for the purpose of avoiding unnecessary and improperly high commissions. Lockheed's efforts here were, however, a first indication that they were working to undercut Northrop rather than support Northrop.

Subsequently, as a result of Lockheed's pressure on Gen. Hashim (who receives a commission of 6% on all Lockheed sales in-country), the 3 Northrop members and 1 G. E. member of the USAF survey team now in-country were removed from the team. This is unfortunate for the Saudi Air Force since the peculiar knowledge of the manufacturer is really a requirement if the survey team is to do the most effective job. We have always participated as team members in other countries. The reason given by Gen. Hashim for requesting that Northrop team members be removed from the team is that it might give Northrop a competitive advantage in proposing on the maintenance and training package (Phase III). This clearly indicates that Lockheed is working outside of the spirit of our agreement. For this reason alone we feel we have no requirement to provide support to Lockheed in its Phase III effort. In addition, and most important in this connection, the Saudi Government has not expressed a desire that Lockheed be a prime contractor for all maintenance in the Air Force even though Lockheed has repeatedly submitted proposals to do so. For this reason, Northrop is free

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to compete for the Phase III business in spite of our agreement with Lockheed.

It is logical that Northrop, as opposed to Lockheed, should be the prime contractor for Phase III. Lockheed has done a good job for the Saudis on the C-130's. They have qualified people and experience in-country, however, the primary reason for their success on the C-130 program is they also have the manufacturer's knowledge of the product and interest in its successful operation. These are unique to any manufacturer and would not be available to Lockheed on the F-5, whereas Northrop has qualified people and the manufacturer's knowledge of and interest in the product.

It is anticipated that the contract for Phase III will go direct rather than FMS since the USAF, although they have indicated that they would go FMS if pressed into it, has expressed a desire to not be contractually involved in this phase. Northrop's chances of winning a competition against Lockheed for Phase III would be improved under an FMS case, so we are working with the USAF to keep this option open.

We do intend to compete for this business for two reasons:

1) It is good and profitable business, and 2) It is in the best interest of the total program that the best qualified contractor be responsible for the work and Northrop rather than Lockheed is best qualified to maintain the F-5 and train the Saudis to assume this maintenance task.

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SAUDI ARABIAN F-5E AND PHASE III DISCUSSION ITEMS

1. What is the Minister of Finance's resistance to accepting the payment schedule recommended by ISA?
2. Is Hashim holding up the signing of the F-5E letter of offer until he is assured LAS will get the lion's share of Phase III?
3. Is there any type of financial relationship between the Minister of Finance and Hashim which would result in personal compensation to either one?
4. Is the Minister of Finance, through Hashim's encouragement, forcing the F-5E financial terms to the point where it may be unacceptable to the USG?
5. What is the Minister of Defense's current thinking and direction on Phase III--direct sale vs. FMS?
6. What has been the latest Hashim influence on Phase III relative to LAS's being awarded a contract?
7. How does LAS's TAG program (do they now have a contract?) influence LAS position in Phase III ?
8. Why did Hashim disapprove Northrop and G. E. experts on survey team?

9. Has LAS's overt action regarding disrupting the smooth flow of events on the F-5E letter of offer had anything to do with direction from Hashim?
10. Is Hashim fully aware of his compensation from Northrop on Phase III and does he fully understand that the success of the program will rest largely with Northrop's ability to support it technically?
11. What are your step by step recommendations to have the F-5E letter of offer signed before it expires 1 October?
12. What are your step by step recommendations regarding Phase III and Northrop/LAS relationship to Phase III?

GAYLORD ANDERSON GAYLORD R. G. ROGAN PERROT, LEHANNON		DATE: 14(C) TIME: 1495 SALT: 1495 CONTINUED ON NEXT PAGE TRANSMISSION NUMBER: 1495 SPECIAL INSTRUCTIONS:	
MESSAGE (TYPE ALL CAPS, DOWN IN CASE) END EACH LINE HERE		DO NOT USE THIS AREA TELETYPE MACHINES HAVE A MAXIMUM OF 66 CHARACTERS PER LINE, INCLUDING SPACES.	
WE CONFUSED AND CONCERNED BY YOUR URGENT Turki MESSAGE RELATIVE PILGRIM CONVERSATION WITH Smith CART. BUT WE SOMEWHAT RELIEVED BY YOUR INDI- Smith Thacher CATION THAT CART AND ANCHOR TREATING SUBJECT Thacher GONZALEZ AS RUMOR. AS DISCUSSED WITH ANCHOR BY PRUNE DUR- ING FINAL STAGES OF LETTER OF OFFER NEGOTIATIONS Saudi F-5B's F-5E's Northrop WASH SURF FOR ROSES AND ROSEBUDS, GARDENER DOES HAVE A CONSULTANT/REPRESENTATIVE AGREEMENT Khashoggi WITH WISHBONE COMPANY. THE FEE TO BE PAID UNDER PROVISIONS OF THAT AGREEMENT FOR AN FMS CASE IS CONSISTENT WITH AND ALLOWABLE UNDER ASPR. BY WAY OF CONTRAST, IF ^{F-5} ROSES SALE HAD GONE DIRECT RATHER THAN FMS, OUR AGREEMENT WITH ^{Khashoggi} WISHBONE WOULD HAVE REQUIRED PAYMENT OF A COMMISSION SUBSTANTIALLY HIGHER THAN ANYTHING PERMITTED		FOR ADDITIONAL PAGES, USE FORM CG-110A, CONTINUATION PAGE NAME: MANUEL G. GONZALEZ ORGN. NO.: R000 TONE: 65 HOURS: 4708 DATE: 3/2/72 AUTHORIZATION FOR TRANSMISSION AND CERTIFICATION THAT THE INFORMATION IS UNCLASSIFIED ORGN. NO.: R000 HOURS: 4708 DATE: 3/2/72	

Wire Messages must include

FROM: (NAME AND ADDRESS) MESSAGE: (TYPE, ALL INFO, INITIALS, DATE) TO: (NAME AND ADDRESS)

BY ASPR BUT (BY WAY OF EDITORIAL COMMENT) STILL.

WAY UNDER COMMISSIONS OF THE RANGE ANCHOR

INDICATED HAD REPORTEDLY BEEN PAID ON OTHER

DIRECT SALES. SAME AGREEMENT WITH WISHBONE

Phase III Phase I Phase II
COVERS SCISSORS AS WELL AS ROCK AND PAPER

Phase III
THEREFORE, AS LONG AS SCISSORS STAYS AS AN

CASE THROUGH UNCLE ANY FEE PAID WOULD BE
CONSISTENT WITH ASPR.

RATHER THAN SPECULATE ON WHAT OR WHO COULD

HAVE PRECIPITATED TURKIA'S COMMENTS EYE TRUST

IT MORE MEANINGFUL FOR ME TO REAFFIRM THE

ROVE TO ANCHOR AND TO CART AND TO ASSURE THEM

THROUGH THIS MESSAGE OF THE FOLLOWING ADDITIONAL

TWO POINTS:

ONE: Northrop
GARDENER HAS NOT AND WILL NOT MAKE ANY
PAYMENTS ON THIS PROGRAM EXCEPT FOR THE
Khashoggi
FEE DUE TO WISHBONE UNDER OUR AGREEMENT
WITH HIM WHICH IS CONSISTENT WITH ASPR.

TWO: Northrop
GARDENER RECOGNIZES THE IMPORTANCE
OF THIS PROGRAM TO ALL PARTIES CONCERNED
AND ITS POSSIBLE IMPACT ON THE NATURE OF
THE RELATIONSHIP BETWEEN Saudi U.S.
AND HAS NO INTENTION OF JEOPARDIZING EITHER.

DO NOT USE THIS AREA

TELETYPE MACHINES HAVE A

MAXIMUM OF 65 CHARACTERS

PER LINE, INCLUDING SPACES.

TELETYPE MESSAGE

TELETYPE MESSAGE

MESSAGE (TYPE, DATE, TIME, FROM, TO, INFO, etc.)

PLEASE SHOW THIS ENTIRE MESSAGE TO CART AND

Smith

Tlacher
ANCHORDO NOT USE THIS AREATELETYPE MACHINES HAVE A
MAXIMUM OF 65 CHARACTERS
PER LINE, INCLUDING SPACES.

Answer Communications, Copy - Originator.



MEMORANDUM

TO : C.R. Gates FROM : Samyr Souki

SUBJECT: Situation Report DATE: March 16, 1973

COMES : Grant Rogan REF : SS-73/297

Kim Roosevelt

Handwritten notes:
 KUSA
 GONZALEZ
 net (B) (S)

CONFIDENTIAL

As a corporation, Northrop has to review its current and future plans in Saudi Arabia as a result of recent developments. I would like to list a number of problems and later make certain suggestions:

1. NAD

NAD has a very good record on Peace Hawk but may run into some static at General Zuhayr's level because of a lack of communication with him. Some communication had been established with General Hashem when he was chief of staff of RSAF but little or no channels have been established with Zuhayr. This problem had been discussed in Hashem's days between Mossrs. T.V. Jones, K. Roosevelt, C.R. Gates and the writer in the presence of the Triad executives during Mr. Jones' visit to Riyadh. Some of the decisions taken there seem to have been ignored after the retirement of General Hashem and the promotion of General Zuhayr. I understand that since then a letter was written to AK on February 19 which does not conform to the plans agreed upon during the Riyadh meeting. The consequent misunderstanding is affecting the relations between Northrop and Triad on the one hand and possibly between Northrop and Zuhayr. This leads us to the second item which is to a large degree connected to the first:

2. The Cantonment Program - NADC

The fact that Triad, through its president, is saying that it will not work in future with Northrop unless item (1) is satisfactorily settled poses a problem to NADC. Again this problem is two pronged. Triad represents one problem and NADC's relations and lines of communications with General Zuhayr is the second. Should Northrop at the corporate level decide to stick to its viewpoint regarding Triad, then there is a real possibility that Triad will work against NADC in the cantonment program. At the same time, the last NADC executives who met with Zuhayr found him to be pleasant but distant.

Our ref: SS/73-297

3. PAGE

The Saudi decision to award the Backbone Project to Sirti was a bad blow. The Page-led consortium had three of the top Saudi agents working with them but at least two had to spend much of their time outside Saudi Arabia at critical periods and were unable to provide all the necessary assistance. Some of the companies in the consortium also failed to convince the international experts on the technical aspects of the proposal. Siemens is particularly guilty of this. The Page offer was more expensive than Sirti but the technical report apparently also showed that Siemens was as good if not better although our technicians and others say that this report was very slanted and biased. One reason that was given for the award going to Sirti, in addition to the technical and price considerations, was that the Sirti agent, Ibrahim al-Zahed, was so much in debt that the highest authorities in Saudi Arabia felt that by awarding the contract to his principals, he will make enough money to pay a substantial part of his debts. This may sound an amazing reason to people sitting in Century City but can be a very valid one in Saudi Arabia. Zahed, incidentally, owed some \$8,000,000 to General Motors for cars imported in 1967 and which he failed to sell because of the Six-Day War.

I understand that from a security point of view, Washington is quite upset that this vital communications project is going to a non-American firm but at the moment, only top level diplomatic intervention could reverse a decision by the Saudi Government that has already been announced. Many of our friends in Saudi Arabia have advised Page and Northrop not to create unnecessary waves on the Backbone Project but to concentrate on the many other projects that are coming up. As far as Page is concerned, there are projects for color television, a small TV station in Abha estimated at \$5,000,000 and a Broadcast Station estimated at \$30,000,000 as well as a number of other telecommunications projects and subcontracting opportunities on the Jeddah International Airport (which NADC has decided to no bid). The problem, as I see it, is the selection of an agent or agents for Page on the various jobs coming up. There again, Page is tied to Triad on some of its projects mainly in the field of telecommunications and free to select other agents in other jobs such as those being put out by the Ministry of Information, PTT and the National Guard. I will revert to the Northrop/Triad relationship in this and other connections in a subsequent section of this report.

Our ref: SS-73/297

4. Future Aircraft Requirements

There is no question in the minds of all our sources that the Saudis are considering purchasing more aircraft. A white paper has been prepared and handed to AK's Beirut office by K. Roosevelt and has been relayed to the authorities. At least this is what Triad claims. We should, therefore, make sure that this has been done in effect and examine what more needs to be done in this respect.

5. NWASI

I understand that the Saudis are interested in this company for the maintenance of their helicopter fleet. I know little about this recent acquisition of Northrop's but I believe that it is a project that should be followed up.

6. Vocational Training Institutes

Don Hughes on his recent trips to Saudi Arabia has looked into this and apparently has decided that it is an interesting project to follow up by Page and this too should be followed up.

7. World Wide Wilcocks

I had recommended to Hunt of WWW Abdul-Majid Zahed as a replacement of Bugshan with whom Hunt was not satisfied. I understand that Abdul-Majid Zahed has worked quite satisfactorily and that WWW has either landed or is in the process of landing some contracts for some of the airports in Saudi Arabia -- navigational aids, etc. Abdul-Majid Zahed, incidentally, is the brother of Ibrahim Zahed who was the Sirti agent. The three brothers, Abdul-Majid, Ibrahim and Youssef split up some time ago and each is working independently.

8. Triad

At my last meeting with AK, at which Don Hughes was present, he indicated that in future he was going to project a new image of himself as an international businessman and planned to move his own personal base of operations to either Geneva or London. He will confine his own personal efforts at obtaining two or three major contracts for his various clients in Saudi Arabia, but the rest of the time he will be building up his new international business which now apparently includes various projects in Europe. (I understand he is opening a new office in Milan to supplement the offices he already has in Geneva, Paris and London) and his banking operation in the United States.

Our ref: SS-73/297

More recently, he seems to have established a multi-dollar business in Brazil. That being the case, Northrop must establish what, if any, of the Northrop projects Triad is interested in keeping and promoting. His performance on Backbone was not satisfactory. The situation is further complicated by the disagreements mentioned previously in this report based on a conflict with Northrop on remuneration regarding Peace Hawk. If Northrop is adamant in its position then it must break completely with Triad and seek new representatives in Saudi Arabia. If Northrop wants to reach a satisfactory settlement with Triad on the continuation of the Peace Hawk program and on-going aircraft requirements, then this must be done immediately. NADC, too, will be affected by whatever course the corporate decision takes. Triad will not push the cantonment unless the Peace Hawk disagreement is settled.

The decision by Khashoggi to build up an international profile is due to mounting resentment against him in Saudi Arabia on the one hand, and his own ambitions to spread further than Saudi Arabia in his business operations. Being a realist, he knows that he cannot in the future hope to be awarded more than two or three contracts per year. He will, therefore, carefully select the ones which are the most attractive. Northrop has to see which, if any, of its own interests can be handled by AK and then proceed on some other route for the other projects.

With or without AK's personal presence, Triad remains one of the best organizations in Saudi Arabia particularly with the Ministry of Defense. There is no doubt that AK enjoys the friendship and confidence of Prince Sultan but even Sultan cannot channel all the MOD deals to Triad. In other ministries AK is less influential. With the National Guard, which apparently is being built up considerably in the next few years, he is considered persona non grata by Prince Abdallah, the Commander of the National Guard. AK's relations with Prince Fahd remain unclear. He obviously sees him particularly when the Prince is travelling in Europe, but it is uncertain as to how much support AK will get from Fahd. AK's fortunes in the future as far as Saudi Arabia is concerned will depend to some extent on who emerges as the leading personality after King Faisal disappears. If Fahd becomes the real leader, there will be several other businessmen who will have as much if not more influence than AK. Should Sultan play the leading role, then AK may become even stronger than he was in the past unless Sultan decides to cut him down to size. Sultan may well do this in order to appease many of the critics that AK has in the country and on whose support Sultan may want to rely.

...5/

Our ref: SS-73/297

It therefore becomes important for Northrop to have a long, frank and decisive meeting with AK. On March 14, Kim Roosevelt called me from Washington and we both agreed that such a meeting should take place at which at least Bob Gates, Kim and I should be present. I am trying to establish where and when this meeting can take place. I will report by telex or phone to Gates or Roosevelt when I have located AK. However, before this meeting, some of the pending problems regarding Peace Hawk should be discussed and settled by Gates and those with whom he has to discuss these problems.

SS:mh

SAUDI COMMISSIONS - TRIAD
20PC B,
[REDACTED]

Memorandum

Northrop Corporation, Aircraft Division
161 West Broadway, Hawthorne, CA 90250

JCB

Summary refers to:

*Rec'd 8/14
from [unclear]
[unclear]*

To: File

From: M. G. Gonzalez

Subject: Saudi Commissions

Date: 13 August 1973

Copies: W. E. Gasich
F. W. Lloyd
G. A. Kelley
C. R. Gates
M. Kuska
R. H. Eddington

Re:

On Thursday, 9 August, a meeting was held in Dave Alno's office with the following people in attendance:

DOD:
Dave Alno
Dick Violette
N. Weissman
J. Hoenig

USAF:
William Robinson
Brig. Gen. Robert Trimble
Capt. Dale Oliver

Northrop:
Jim Holcombe
Manny Gonzalez

Triad
Adnan Khashoggi
Dan Zurfine

The meeting was one I had arranged with William Robinson (see memo dated 3 August 1973) after Khashoggi had volunteered to meet with appropriate officials in the U. S. Government to tell them how business is conducted in Saudi Arabia and to provide them with specific information as to his agency relationship with other companies.

Khashoggi did an outstanding job of presenting his case to the people in the meeting. The meeting was originally scheduled to last one hour, but ended up taking over two and one half hours.

NOTED

[Handwritten initials]

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Aline opened the meeting by reviewing the background as to why the DOD and USAF have an interest in agents and agents' fees. He explained the procedures and the contractual relationships involved in FMS cases and briefly summarized the ASPR provisions which recognize agents' fees in FMS cases to the extent they are "reasonable". He concluded his opening remarks by stating that he understood that Khashoggi was there to "shed some illumination" on this area.

Khashoggi started his remarks by relating how he became experienced in dealing with the Ministry of Defense in Saudi Arabia. He indicated that while he was attending school in the United States (Chico State and Stanford) he became acquainted with a U.S. truck manufacturer and eventually became his distributor in Saudi Arabia. Nothing much developed from this relationship until the 6 Day War when Saudi, although not directly involved in the war, reviewed its military capabilities and discovered that it was badly lacking in military trucks. The Saudis reviewed what was available and selected the truck for which he was the distributor. This was done without his intervention and, in fact, without his knowledge until toward the end. His role was one of assisting the U.S. manufacturer and the Saudi government in reaching an agreement and communicating with each other during the delivery and operation of the equipment. The trucks were delivered on time, without red tape and operated effectively and as represented. The Saudi Government was very pleased and as a result turned to Khashoggi to render assistance in selecting a company to operate the Dhahran Airport. This was also a successful operation. He concluded this first part of his story by saying that the reason he has a good relationship with the Ministry of Defense is because, over the years since the first sale of trucks, he has given the Ministry of Defense sound advice and, most importantly, the companies he has represented have delivered excellent products and provided good service. He has never had to develop excuses for poor performance.

(This first part of Khashoggi's story was directed at the point that he did not reach a favored position with the Ministry of Defense as a result of any personal friendship with Prince Sultan or his predecessors, but as a result of a business relationship initiated in the U.S. and then as a result of good performance over the years. Most of the people in the meeting understood the point and after hearing the rest of Khashoggi's story, accepted it.)

The next area Khashoggi covered was the "economic infrastructure of Saudi Arabia." He pointed out that Saudi Arabia is a sparsely populated (6 million) large area in which almost the entire wealth of the country is vested in the government. In short, he described it as a "welfare state" in which the

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government is the only real purchaser or consumer. He added that the king is a firm believer in the free enterprise system and is concerned that the present economic infrastructure makes Saudi Arabia an easy target for a communist takeover. He could elect to distribute the government's wealth to the people, but to do so would be merely a temporary solution and an attempt to forestall communism by imitating it. Instead the king has elected to follow a slower, but hopefully more permanent solution of trying to foster a level of independent business within the economy. Since the country produces no hard goods and since the government is the only purchaser, Khashoggi pointed out that the only way for this level of independent business to develop is for them to - at least initially - represent foreign manufacturers in business dealings with the government. He went on to state that the role of the "sale representative" is very open and accepted in all areas of the economy except defense. He pointed out that defense equipment purchasers get an unusual amount of publicity everywhere in the world. (Everyone in the meeting readily accepted this point). Khashoggi stated that when he sells Chrysler products to the government, he openly marks them up by 15%. When he represents a company building a road or a dam, his commission is clearly identified. The reason all of this is possible is because these business transactions do not receive the public - worldwide - attention. In the military equipment area a different situation prevails. The key government leaders are fully aware of the agency relationships in the military equipment field, but publicly they cannot acknowledge them.

At this point Dave Alno said that this is precisely one of the major dilemmas facing the U.S. Government in FMS sales. He fully accepted everything Khashoggi said and stated that the U.S. would have to be true "diplomats" in this respect and must use "carefully selected and artful words" in its dealings with other governments. He indicated that the U.S. need not volunteer to the foreign purchaser the information that an agent is involved in a transaction but that they must respond honestly and completely if they are asked about an agent by the foreign purchaser. He also stated that when a representative of a purchasing government (i.e. Gen. Toufanian) makes a public statement that they do not want any agents involved in FMS transactions, it could really mean they don't want any excessive agency fees involved.

(There were two major points which Khashoggi intended to bring out in the second part of his story and the second point was apparently accepted and amplified by Dave Alno. Khashoggi's first point was that agents as part of sales to the Government of Saudi Arabia are a practical must if a level of independent business consistent with a free enterprise system is to be developed within the country given its present economic infrastructure.

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The second point was that because of the out of balance amount of publicity focused on the purchase of military equipment as opposed to other purchases by any government, there is a degree of sensitivity on FMS cases with Saudi Arabia as to agents' fees that doesn't exist on non-military sales. This does not mean that agents are not permitted or even expected. Dave Alno's comments seem to suggest that Khashoggi was correct on this point and, in fact, in response to a direct question as to whether or not the Saudis had publicly made a statement, as have the Iranians, that they do not want agents involved, Dave Alno answered no they have not.)

The third part of Khashoggi's story covered past and present commission arrangements he has on sales which have been made to the Saudi Government. The first example was a sale of tanks on which he represented the French Government. The total value of the sale was \$600 million and his company received a commission at a rate of 7.516% or roughly \$45 million. The next sale was a helicopter transaction on which he represented a British firm on a government to government sale in competition with a U.S. company. This sale was approximately \$115 million and his commission was 5%. The third illustration was the sale of ordnance from a Belgian company in competition with the U.S. Government itself. This sale was for \$78 million and his commission was 6%. He commented that the Belgian company's price was 15% higher for essentially the same ordnance items than the price which the U.S. Government was offering, but two things caused the Saudis to select the Belgian company: (1) there was no "catalyst" or salesman representing the U.S. in the competition and (2) the U.S. Government's administrative procedures and details made the transaction appear to be too complicated. (This latter transaction was apparently recognized by Dave Alno and he made several notes based on Khashoggi's comments - essentially to the effect that when the U.S. Government is selling in the international arena we use non-salesmen and are not sensitive to the problems of the potential customer.) Khashoggi also reported on direct sales (as opposed to FMS cases) involving U.S. companies essentially as follows: (a) Raytheon: \$100 + million with a commission of 5% on hardware and 15% on spares and services; (b) Lockheed: unstated amount but all C-130 and Jutstar sales and service support - 8%; (c) Chrysler: over the years, not one sale, approximately \$50 million with a commission of 15% on each sale.

(Rather obviously the main point of this part of Khashoggi's story was that he has agreements with other companies, including U.S. companies, where the volume of the sale or series of sales has been equal to or greater than the total Peace Hawk Program sale and on which the commission rate - and more importantly the absolute dollar amount of the commission - was higher than the Triad/Northrop agreement. This is important in two main

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respects: (a) U.S. Government officials have stated that the commission rate on the Peace Hawk Program is not in and of itself a problem, it is the absolute dollar amount of the commission which is a problem, and (b) ASPR does provide that a measure of reasonableness is what the practice or experience is with respect to other non-government sales. Khashoggi volunteered to prove his statements by submitting for U.S. Government review the agreements which covered the sales and commissions he summarized in his statement. No one took him up on his offer and instead seemed to accept what he said as being totally factual. Gen. Trimble made several comments to the effect that the common or usual practice still does not mean that the fee is "reasonable" if it is unrelated to cost. He was swayed but far from convinced by Khashoggi's statistics which were apparently accepted as factual even by him. He did make detailed notes, however, of these statistics and, from a contractual standpoint, I am of the opinion that these statistics are highly beneficial to Northrop's claim. If nothing else, they give full credibility to my personal statement that to my limited knowledge the business deal Northrop had worked out with Triad was on the low end of the commission spectrum. This supports our argument that we entered our agreement with Khashoggi based on our best business judgment at that time and when we were involved in a competition. Those factors, within ASPR, are essential ingredients in determining "reasonableness".)

The fourth and final point of Khashoggi's story was that, although the absolute dollar amount of his commissions might lead people to believe that decisions in favor of the companies he represents were the result of payoffs - undue influence or improper dealings by whatever name, such in fact was not the case. In support of this point, he stated that his annual operating expenses for his offices and personnel were in excess of \$5 million. (Once again, he offered to submit his financial statements, audited by Price Waterhouse, in support of this comment, but no one accepted.) He then pointed out that he represents many companies and several proposed sales for each of those companies. He stated that his batting average of success versus failure was maybe 2 out of 10. (At this point, Robinson asked if there were other agents in Saudi Arabia. He obviously knew that there were and was merely trying to be helpful by bringing to the attention of Gen. Trimble and others at the meeting that Khashoggi does not have a lock on the market.) Khashoggi then stated that he works for many years on each transaction before it turns into a success or failure for him and that even when it is a success, his payoff is over the time period of performance which may be as much as 10 years. He concluded this area of his comment by stating that, as a "free enterprise, in the American tradition, businessman", he must make his money on his successes, not on his failures.

Next, Khashoggi stated that the King and Prince Sultan are above the level of improper influence and that anyone who thinks that they can be reached on this basis simply does not understand the facts of life in Saudi Arabia. He said "Prince Sultan does not need an Adnan Khashoggi. If he wants \$10 million, all he has to do is take it from the government since he is an essential part of the government and it is his to take. If Adnan Khashoggi, or anyone else, tried to buy a decision from Prince Sultan, they would insult him and to insult him is not only stupid, it is dangerous. Adnan Khashoggi will never offer Prince Sultan money - that is like a beggar offering riches to a king. Adnan Khashoggi will only offer him truth, sound advice and good products." (After these comments, even Gen. Trimble was impressed.)

The final slant to this area of Khashoggi's story was most impressive. He stated substantially as follows. He believes that the "Royal Family" in Saudi Arabia is a stabilizing influence not only in the country but in the entire Middle East. (Everyone nodded their concurrence.) Khashoggi then added that loyalty to the Royal Family was in the best interest of such stability. (Once again, everyone nodded their concurrence.) He then went on to state that people not familiar with Saudi Arabia must, in order to at least partially understand it, recognize the fact that much of the culture of the country is based on a Bedouin philosophy. These people do not acknowledge a loyalty to anyone. They only recognize a loyalty based on material values. Khashoggi then went on to give several illustrations of where he had been told by members of the Royal Family to do certain things. For example, he was told that a Bedouin school in one locality needed text books. He provided them - without reimbursement. He was told that a Bedouin chief near the border with Yemen needed 12 trucks to transport his goats back and forth from one oasis to another. He provided them - without compensation. Khashoggi commented that perhaps certain people might consider this to be improper influence, but in his country, it is considered as loyalty to the Royal Family. (Somewhat surprisingly, everyone appeared to understand and accept this comment.) Khashoggi finished this part of his story by stating that in direct sale cases improper payoffs do exist and are expected and that this is the primary reason for the difference in commission rates between these two types of sales. He, as a businessman, makes no more or no less in either case. He, as a loyal Saudi, prefers that a sale goes FMS versus direct sale in order to prevent and avoid the improper payoffs and for this very reason the Peace Hawk Program was "converted" from a direct sale to an FMS case on the agreement of Northrop, and Khashoggi, and with the awareness of Prince Sultan.

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(Once again, the main point of this part of Khashoggi's story was obvious. Improper influence does exist in Saudi Arabia, but not at the highest levels. It can be avoided at the middle and lower levels by FMS cases versus direct sales. Under FMS cases, an agent must make a commission adequate to pay for his operating expenses and loyalties to the Royal Family, recognizing that he will be successful on only part of his arrangements.)

Khashoggi finished by saying that he appreciated the opportunity to talk with everyone and tell them of his experience and operations and his country's approach to business. He said that his "efforts and business activities were directed at building a bridge between Saudi Arabia and the United States". That as a result of his own operations he had accumulated the capital to invest in both countries' economies. That he understood that "the U.S. Government invested many billions of dollars annually in aid programs directed at building bridges between the U.S. and other countries". And that, although some people may consider his commissions as being high in total dollar amount, that they are insignificant when compared to the investment made by the U.S. Government in its aid programs. (At this point Dave Alne commented that if he had to "translate" to his superiors what Mr. Khashoggi had told him it would be something to the effect that Khashoggi is an "inexpensive aid program". Alne, who was most helpful and supportive during the entire session apparently sensed that Khashoggi's point may have been lost on the other attendees, so he made light of it and, in doing so, re-emphasized it.)

Robinson commented that he "had to ask one question". He turned to Khashoggi and said, "Mr. Khashoggi, if all commissions are allowed and paid in this deal and the U. S. Government doesn't disclose the fact, but Prince Sultan finds out about it, will everything blow sky high?" Khashoggi answered, "Certainly not, if it is handled with tact and diplomacy." He went on to say that his \$45 million commission deal with the French on the tank sale had come under question and that he had been required to submit his agency contract to the King for review, let alone Prince Sultan. In that case, all of the facts were known but the French Government handled them with "tact and diplomacy" and therefore no problem resulted. (Khashoggi's point was not lost, in fact Robbie seemed to have intentionally invited it. If the U.S. Government was as astute in its diplomacy as the French, the question would be unnecessary.)

Dave Alne concluded the meeting by saying that he was most appreciative of Mr. Khashoggi's coming to Washington and openly and honestly discussing the role and function of an agent in Saudi. Alne added that he was sure that as a result of this visit "many people learned a great many things, not the least one of which is that a commission agent can be an honest and an astute businessman rather than an influence peddler who wears horns." Robinson added that the USAF was most appreciative of Khashoggi's obvious professional approach and open disclosures.

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After the meeting Dave Alne took me aside and said, "Manny, it was a stroke of genius to invite Khashoggi here today. We couldn't have arranged it for obvious reasons, but it's well that you did. Many people learned many things today." Holcombe stated that "Khashoggi sure as hell helped us as well as himself today."

I personally would assess the meeting as a plus factor. Some "illumination" was provided to the dark areas and statistics were placed on the record. However, we will still encounter major difficulties in concluding a settlement with the USAF which covers us fully for all of our commissions to Triad. As stated above, certain key individuals "were swayed but not fully convinced."

I have gone into an unusual amount of detail in this memo since, in my opinion, this was a most unusual meeting during which many unusual subjects were covered which deserve to be recorded.



Manuel G. Gonzalez

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GENERAL STATEMENT OF SERVICES

The duties of Triad Financial Establishment are not limited to soliciting, obtaining or assisting in obtaining contracts. Examples of the services provided to Northrop, the U. S. Government and the Saudi Government are summarized as follows:

FOR NORTHROP:

1. Triad, as the Northrop representative in Saudi Arabia, is charged with the responsibility of maintaining continuing coordination and interface with the various ministries and other Governmental agencies in Saudi Arabia. They arrange appointments for Northrop Management during and after business hours. Usually the agent is present during these meetings and provides an on-the-spot interpretation of the conversation. This is a particularly valuable service in the area of new business acquisition as it enables Northrop to ascertain the need for equipment and/or services in a timely manner. As a part of this coordination and interface, Northrop receives regular reports with respect to Saudi Arabian long range procurement plans, the country's financial condition, current fiscal year expenditures versus income, projected income and new budget allocations. In addition to formal business reports, biographical information is provided with respect to particular customers together with recommendations as to the preferred method of establishing positive business relationships.
2. The agent arranges for and sometimes conducts briefing sessions for key Saudi Arabian officials with regard to Northrop products. Furthermore, they coordinate with Saudi Arabian Government officials for the purpose of providing product demonstrations both in Saudi Arabia and in the United States.
3. Triad, as Northrop's representative, solicits and receives proposal requests from the Saudi Arabian Government. Subsequently, reviews the requests, consults with Northrop on the form, i.e., Letter of Offer and content of the proposal to be prepared. During the proposal preparation cycle, continual intelligence is gathered and provided to Northrop management in order to ensure the most responsive possible proposal. In addition, we are able to keep a pulse on the progress of Northrop proposals within the Saudi Arabian procurement cycle and take such corrective action with those proposals as is recommended by Triad. The agent reports on Northrop's competition with respect to their progress, acts as a consultant on proposal data and makes recommendations as to the strategy that should be applied to offset negative factors.

4. Triad maintains offices in the principal cities of Saudi Arabia in order to serve its clients in an efficient manner. This is important to Northrop in that they arrange for: (i) banking services (both personal and business), (ii) credits, (iii) posting of bonds, (iv) office services and space, (v) data storage, (vi) translation services, and (vii) graphics services. At times, they arrange for in-country subcontract services and suppliers to be utilized for local purchase of services and materials in support of proposal efforts and other business activities.
5. It is important, if not mandatory, that Northrop management representatives be aware of local laws when doing business in a foreign country. The agent recommends required legal services and a suitable local legal firm. A legal briefing is important and of equal value is the review of contractual instruments to ensure compliance with the laws of Saudi Arabia and to ensure that the interests of Northrop are protected.
6. Review of correspondence, proposals and contractual documents is very important to ensure that the contents are not offensive to the customer in any way. Further, many times when a writing is translated from English to Arabic (a language with a totally different root), the intent and meaning is lost or garbled. Therefore, review by businessmen (Triad) familiar with local business practices and customs is mandatory to ensure clear and concise communication with the customer.
7. Visas and exit permits are obtained by the agent for Northrop representatives. Upon arrival in country the agent assures that the representatives are passed through customs smoothly and transported to their accommodations. They are responsible to see that Northrop's people are immediately aware of the local customs and business traditions of the country.

FOR THE U. S. GOVERNMENT:

1. Triad translated and reproduced the U. S. Government Letter of Offer, Terms and Conditions, and other data used in the sale of the FMS case for all three phases of the Peace Hawk Program.
2. Indirectly, through Northrop, Triad provided the U. S. Government negotiating team, the U. S. M. T. M. and the Ambassador, intelligence with respect to the reactions of key Saudi Arabian officials to the U. S. Government proposals. As a result, we (the U. S. Government and Northrop) were able to provide coordinated, responsive Letters of Offer to the Saudi Arabian Government which resulted in the consummation of the Peace Hawk sale.

FOR THE SAUDI GOVERNMENT:

Triad serves as a go-between for the Saudi Government with Northrop and, through Northrop, the U. S. Government in areas of extreme sensitivity for either reasons of price or beliefs. For example, in the area of interest - the Saudi Government knows it is in the Letter of Offer for Phase II but, through Triad specifically requested it not be called out as a line item because religious beliefs and fiscal policy dictate that they cannot sign a document calling for interest. This was embarrassing to them and therefore they used Triad to solve the problem.

KEY MEETINGS/GATES

File 171

p. 26,27,28,29,30,31

21 August 1973

Mr. Samyr Souki
 The Middle East Business Services
 and Research Corp.
 P. O. Box 2400
 Beirut, Lebanon

Dear Samyr:

The purpose of this letter is to cover a variety of subjects which need comment at this time or answer outstanding questions, at least to the point that they can be answered. I hope that we will have the opportunity of getting together back east sometime during your visit to the U. S.

First, we have now settled the outstanding problem with Adnan that has been bugging us all for so long. We have agreed that the entire 450 (250 which has been paid, plus 200 which will now be paid) is Northrop's responsibility. However, if we make additional sales of aircraft related items, excluding actual aircraft hardware itself, we get the 450 back out of Adnan's then-due commissions. This would apply to the cantonment project or to an extension of the Peace Hawk Phase III support type activity. I hope this clears the air now so that we can get on with the two major projects of cantonments and the next aircraft buy.

While we are talking of Adnan, he has been receiving additional publicity in the U. S. and some of it has been quite good. I am enclosing an article from the August 11 Business Week for your information in case you have not seen it. Also, Manny arranged for AK to meet, with him, with a group of DoD and Air Force officials at the Pentagon in order to explore agents, how they operate, etc. Manny's report makes fascinating reading and I am enclosing a copy. It appears that Adnan did a beautiful job, and this could very well work to the benefit of everyone involved.

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I endeavored to get Adnan to agree that on any subsequent Phase III type support work the much discussed 1/2% for BSR would come out of AK's fees. He remains adamant on not covering more than 1/4% as opposed to 1/2% and will not budge on this point. Therefore, between Northrop and BSR we still do not have a firm grip on where the additional 1/4% will come from, for the current Phase III Peace Hawk contract or for any possible future extension for that type activity.

As we have previously discussed, and I have discussed further internally, with the negotiating situation that we continue to face on FMS cases, I see no way that we can include this in any FMS case, either hardware or support services. Therefore, we still have to look further in order to see if we can find some logical and acceptable place for this to come from. One suggestion might be for it to be included within your existing arrangement with NADC on the Kuwait airport work. The potential BSR fee on this job is quite significant, and from the amounts involved could encompass the approximately 300K that we have been talking about. I regret that this point is not yet resolved, but we will have to continue to examine the situation to see how it can best be handled now and in the future.

As far as future sales of aircraft hardware are concerned, we have no problem on this, and BSR's 1/2% is included within Triad's total of 4 points. Adnan has no hangup on this point, and it will continue in the same way as in the past. On this point I hope we can make this next buy of F-5E's move as rapidly as possible. We have had much discussion here, both with AK and among ourselves, as to actions to take. Adnan is asking for the comprehensive study of future Saudi needs in which the rationale for the next 20 to 70 F-5E's would be laid out. We have already done a study that addresses this point, which was passed to Sultan. Perhaps we have to do further work in this area. We also have to endeavor to get the U. S. team that is supposedly going to Saudi again to bring up the subject of additional F-5E's. As of now, it is a little unclear as to the purpose of this DoD team and when they are going.

Mr. Samyr Souki
 21 August 1973
 Page Three

When they do go over, I feel sure that a part of their mission will be to push the F-4, although we have heard recently that Sultan feels that the F-4 is too complex for their use. Some aspects related to this subject are contained in a telex of August 16 from Sterling to Ben Collins at the Beirut office, with copy to Rogan, which you have probably seen by this time.

One other item relating to Adnan is that of Northrop's release from the conflict of interest clause in his agreement with us, for the F-4 and the Jaguar. I have rewritten those letters, making them less restrictive than previously, and spelling out the conditions under which Northrop would release Triad to support McDonnell Douglas for sale of up to 50 F-4's and for the sale of Jaguars to Saudi Arabia for use by Egypt. If he accepts these letters, then that problem will be resolved.

I think that the subject of BSR's schedule of payments and the method of transfer is now in hand. The Aircraft Division, i.e. Manny Gonzalez, recently sent you a sizable payment and a letter which outlined the breakdown of the amounts against the phases of the contract, and the reasons for any discrepancy with the previous schedule of payments. Also, they have been instructed to make these transactions into your Swiss account by wire. I believe that this should work satisfactorily from this time on.

Last week we were going to send the detailed breakdown to you by telex, but it occurred to me this might not be sensitive to your situation; therefore, I instructed Manny's office to send you a generalized telegram and to send you by letter the break out of payments. Do you have any sensitivities regarding the use of telex in these matters? I want us to give careful regard to any sensitivities that you might have at your end.

I am trying to arrive at a satisfactory resolution of the effect on your retainer of dollar devaluation. That was the reason for my telex asking if it were okay with you to pay the retainer in local currency. However, there are still some people around

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 21 August 1973
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here who would prefer to keep it in dollars and to make the adjustments accordingly. If we try to apply the full swing of dollar devaluation from the 3.2 LLB per \$1.00 level down or thereabouts to the 2.3, this creates such a large increase in dollar input that I am not sure our budget will stand it. Fortunately, we do see the dollar coming back up in value somewhat in recent days. I am trying to get through the best increase I can, based on an actual increase in retainer and on making up at least a part of the dollar devaluation. Once this is settled internally, I will advise.

Concerning Munir's situation, he has recently been written informing him of the status of the two B's and sending him an initial payment on commissions due. The status of the E's is still hung up with the U. S. foreign aid sale, and the intent is to clarify his consultant arrangement at the time we can see clearly where we are regarding actually moving ahead on the E's for Jordan through grant aid. I hope this is within the very near future.

I am enclosing a copy for you of the agreement with Kazan re Qatar. I had told you previously that I would send you a copy of this since you did not have one.

Concerning the Saudi National Guard Vehicle Maintenance Program, it appears that there are some additional tasks to do, as requested by Prince Talal. Some work has been done on the NWASI capability brochure, which Talal should forward to Prince Abdullah in order to insure that NWASI is accepted as a qualified bidder. I see that Farid Rizk has made a few comments in his August 8 letter to Eric Smith concerning the agreement with BSR. I presume that these agreements are being satisfactorily worked out.

Concerning the RSAF cantonment situation, it appears that we are now pursuing, at Prince Turki's request, a joint relationship between NADC, Lang-Wimpy and Hochtief. Khaled Alireza apparently is supposed to be verifying with Turki that this is the way he wants it, and then the appropriate arrangements should

Mr. Samyr Souki
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be made with NADC in the lead. Adnan feels that we then will be in good shape to proceed towards the project.

Concerning the airport possibilities in the Sudan, Abe Moses is now in Europe talking to potential financing sources in Paris and London. Then the intent will be to make a report to the Sudanese government, telling them what we can do on the airport projects, including what kind of financing picture can be made. The Bangkok airport is absorbing so much time and attention of NADC that it is difficult to get much done on some of the other projects that have significant potential. I hope this situation improves in the very near future.

Tom Jones has just written Hisham Nazer about speaking before the Los Angeles World Affairs Council. One original letter was sent directly to Hisham Nazer in Jeddah, and another original was sent to you to get to Nazer. Hopefully, one or the other of these ways will find its destination soon in order that confirmation of the dates can be made.

We are having considerable discussion regarding establishing and manning our office in Riyadh. I am currently interviewing a number of candidates for this job, as well as candidates for the man to become my "head Arabist" on the staff here. I am finding that there are several attractive people available for these jobs but I have not yet made a decision. I would certainly consider Dr. John Brown, but I have not yet had the opportunity to meet him.

I have been told, and Kim has confirmed this, that Thatcher will be replaced by James Akins in Jeddah. Through Kim I am endeavoring to contact Akins before he goes into country so that we can talk to him about Northrop in Saudi Arabia.

You and I had discussed the possibility of beginning to talk to some of the Saudis regarding Cobra. I still think that is a good idea for the relatively near future, and the future use of the Cobra may be included in the white paper which is being prepared for transmittal to Prince Sultan. Upon reviewing

Mr. Samyr Souki
 21 August 1973
 Page Six

the scope of the white paper, I think it is going to take a few weeks to get it done. Obviously, our primary objective aircraft-wise is to get action pinned down on the next 20 - 70 F-5E's and insure that we are maximizing our chances on that. The thought is still rather intriguing though of getting some Saudi money into the Cobra development program, but we have to do some further strategizing on this before taking the overt action.

As a matter of interest, I see that the commission base on Phase II of Peace Hawk has risen by over \$11 million from the original estimate, and that the base for Phase III has risen over \$5 million. This at least makes a rosier picture for everyone concerned than had been the original estimates.

This letter has turned out to be a mixed bag of many things, but I wanted to update our correspondence as much as possible at this time. Some of the outstanding problems have been answered but not all of them as yet. These are still being addressed with the intention of finding the most satisfactory solution.

I hope that we can get together or talk during your visit to the U. S. For your information, I will return from Japan and be in the office on September 4 and will depart approximately September 12 for the Brazilian Air Show. It is possible that I could be in the east for a short time during that interim time period. I will look forward to seeing and talking with you then.

Best personal regards.

Sincerely,

C. Robert Cates

CRG:bw

CRG:bw

MISC. MEMOS/KEY MEETINGS
File 17A
p. 32, 33, 34

ERNST & ERNST

LOS ANGELES

OK'd TO VENTURA FILE

520

TO	Northrop File	DATE	July 3, 1974
FROM	L. D. Gray <i>LDG</i>	SUBJECT	Interview with W. E. Woolwine at Ventura Division on June 28, 1974

On June 28 at 10:30 a.m., a conference was held with Mr. W. E. Woolwine, General Manager of the Ventura Division. The purpose of this meeting was to follow up on the questions which arose during the conduct of the special investigatory procedures at Ventura, and also to review briefly Mr. Woolwine's Questionnaire which had previously been provided. In attendance at the meeting were, in addition to Mr. Woolwine, myself and Jim Blair of E&E and Mike Francisco of PW.

I first led off the meeting by reviewing the Questionnaire from Mr. Woolwine. Mr. Woolwine's previous responses to the questions were very straightforward, with no unusual matters noted. Woolwine did ask that we make two slight modifications to the Questionnaire, one, adding a paragraph with respect to some very small personal contributions he had made during the past three years, second, that he believed he should make reference to another man (Grogin) at Ventura who may be able to answer certain of our questions. With these minor exceptions, he had nothing to add to the Questionnaire. I only had two questions from my review of the Questionnaire, these having to do with the possible availability of documentation at Ventura with respect to settlements of overhead, any questions raised by the IRS, etc. As I stated to Mr. Woolwine, I was anxious that if in fact any such correspondence existed, that we be allowed access to it. Mr. Woolwine stated that he was aware of no such communications, and if we had any further questions in this regard, we should direct those to either Mr. Sternadel at Ventura or the appropriate Corporate office official in Century City.

We then proceeded to direct certain questions to Mr. Woolwine as a result of the work performed to date. I informed Mr. Woolwine that we may have other questions later on, and that we in fact did plan to come back and talk to Mr. Grogin upon his return from ~~leave~~. I first asked Mr. Woolwine if he would give us a brief overview as to his understanding of the use of consultants and agents abroad. He proceeded to give us an overview, stating that he had himself challenged the use of such agents in the past, but had pretty well concluded that in certain situations there is no alternative. He went on to recite certain arrangements where it was proven that they could not make sales without the use of agents. He stated that since they felt they had to do it, he spent considerable time in assessing what they were getting, reviewing the details of the agreement with their in-house counsel, etc. He felt that since his arrival at Ventura some two months ago, he was very up-to-date with all agency agreements entered into since that time. He went on to state that most of their agreements are very similar the only difference being the negotiated rate, possible advance payments, and of course the locale and the individual involved.

To Northrop File

Page Two

July 3, 1974

The discussions then turned to certain matters with respect to consultants or agents being retained by Ventura. Blair and myself had a list of certain questions which had come up during the process of the work at Ventura and our review thereof. Woolwine was questioned first with respect to the Shahara agent relationship in Saudi Arabia. I had noted that a new consultant had recently been retained (by the name of Xemel Industries) and wondered what relationship it had to Shahara. Woolwine stated that Shahara had recently left Saudi Arabia and he understands he has now moved to Canada, thus their services have been terminated within the very recent past. The Shahara relationship had been in effect for a number of years, and substantial amounts had been paid in Saudi Arabia for this service. Woolwine stated that he had never met Shahara, and had never had any direct dealings with him, but that if we had any other questions with respect to what he was doing, etc., we should perhaps discuss with Grogin upon his return from ~~Lebanon~~ (Note: I had one other question with respect to Shahara, having to do with a \$5,000 payment which for some reason in mid-'72, was sent to Canada. The balance of his payments had always gone to Saudi Arabia. This even amount going to Canada did look unusual, however I did not pursue it at this time, and decided to follow up specifically with Grogin on this matter).

We brought up briefly the name of Sam Souki. Our question here related to whether or not Ventura attempted to coordinate what they were paying Souki with what other divisions ~~had~~ the Corporate office were paying. Woolwine stated they in fact do communicate with the other divisions and the Corporate office, and attempt to coordinate such arrangements. He knows that others are retaining Souki, but stated that they had independently reached agreement to pay Souki for certain commissions depending on the sales of their particular products. At this stage of the meeting, in order to answer perhaps with more specifics, Woolwine requested that Frank Tipton sit in with us. Tipton is the Ventura counsel, who has been in his present capacity for a number of years, apparently, and is very familiar with the mechanics and the details of the agency and commission agreements. Tipton apparently maintains the original files, and is responsible for reviewing agreements for legality, etc.

I questioned Woolwine as to his understanding of the Company called Management Technical Services, Ltd. Woolwine stated that he knew very little about this company, inasmuch as it had predated his arrival at Ventura. He referred us to Gasich in the event we had further questions on this Company. Tipton stated he knew that it was a Company headquartered in the Bahamas, but that he too knew very little about it. They said that perhaps in addition to Gasich, Mr. Kitchen at the Corporate office may be able to shed light on this Company.

We discussed briefly the Aerial Targets agreement. We brought this up only because of the magnitude of the commissions being paid Aerial Targets, but stated that we had investigated this agreement, and really had no specific questions.

Jim Blair inquired as to whether either of the gentlemen knew about Amanco Trading, this is apparently an assignee of certain payments in Saudi. It appears to be related to the Shahara deal. We encountered this in a letter in our review of the correspondence file. Tipton stated that he felt the agreement was never entered into in the way set forth in that letter - namely that certain payments would go to Amanco, and certain payments directly to Shahara. Jim also inquired as to whether or not either of the gentlemen was familiar with the amendment to the Shahara payments, wherein more advance monies were given Shahara than the original agreement called for. Jim made reference to another letter we had noted

Northrop File

Page Three

July 3, 1974

which stated that Grogin was going to give Shahara more on the front end to "give him more maneuvering room." Again neither gentlemen seemed familiar with this amendment, both stated that we should perhaps talk to Grogin before we proceed any further. They did state that Grogin had been in recent contact with Shahara, and they understood that he was attempting to settle the payments owed Shahara on some basis in order that he will be paid final amounts due him, in order that Northrop might then start making payments to the new consultant which is replacing Shahara in Saudi.

Both Woolwine and Tipton then summarized very briefly for us again their basic method of reviewing the consultant agreements for propriety. They both stated again that they attempt to make sure that an agent relationship is necessary before they enter into agreement. They realize that in certain cases, a monopoly in a country could exist, but they attempt to clear things through Corporate legal (Gore) or Corporate marketing (Gate) before they attempt to enter into any type of long-range agency agreement. They further stated that in certain cases where they had questioned the use of certain consultants, they had been urged by Corporate to continue the use. This latter, pertains particularly to Souki.

Blair mentioned in closing that our work had uncovered a couple of items which we perhaps would include in our report in the form of recommendations for improvement in procedures. This had to do with certain overpayments we noted to Shahara (which the Company is presently attempting to resolve) and also with respect to monies advanced to Greece, wherein it appears there was little accountability maintained at Ventura. In total, some \$400,000 has been advanced to the field office in Greece, but Ventura maintains little in support of the ultimate disposition thereof.

With that the meeting adjourned for lunch.

Triad file

ERNST & ERNST

LOS ANGELES

TO Northrop File DATE September 12, 1974
 FROM Larry D. Gray *L.D. Gray* SUBJECT Meeting with Bob Watts on
 September 10, 1974

Jim Blair and I met with Bob Watts at approximately 4 p.m. on the afternoon of the 10th in his office. The purpose of this meeting was to follow up on a couple of specific questions that remained on Triad.

The first of these questions had to do with the so-called "side agreements" on Triad which are not routed to all concerned parties at Northrop. Watts stated that these side agreements are really various concurrent agreements entered into after the initial complex contract was negotiated. He stated they are organized in this fashion as an addendum to or because mechanically it was about the only way he could handle them. In other words he did not want to rewrite the whole contract which had taken him many weeks to hammer out. The agreements really apparently addressed themselves to specific contract items, including such things as what might happen if Khasshoggi were not able to perform, etc. He stated that it was his decision that these not be disseminated to all parties in Northrop, inasmuch as they were very complex, awkward, and would clearly not be understood by all parties. He stated he thus concluded that the basic contracts would be routed, but that these would be retained by only a very few. He acknowledged that there was sensitive data contained therein, and that he was more concerned about it being a misunderstanding, than he was that it would be deemed wrong in any regard. In other words he would categorize this as just being an expeditious way to deal with a very complex and awkward subject.

Blair then pursued with Watts his involvement in the third amendment to the product agreement on Triad. This had to do with the entering into of an agreement wherein Northrop was to pay Triad another \$450,000 for work done. Apparently the genesis of this was that additional amounts had to be paid by Triad in earlier work in Saudi, and this was just to get him even. Watts did not dispute this, but reiterated the fact that whether or not Khasshoggi really had to make the payments he purported, it could not be proven by Watts, they more or less accepted Khasshoggi's representations in this regard. He felt Northrop had a moral and a proper commitment to Khasshoggi, based probably on some misunderstandings along the way as to whose commitment it was, but that he felt there was nothing wrong with this contract amendment. He stated that he did not really want to know for what purpose the money had earlier been used by Triad, again he is concerned about results and the fact that the agent becomes the middle man and is responsible for getting the job done. He stated in response to a question by Blair, that this was the only addition he was aware of to the Triad agreement which was designed to provide additional funds to Triad or Khasshoggi for commitments he may have made on behalf of Northrop. We discussed briefly the role of Souki as regards Triad, Watts thinks that the dispute here basically arose because Northrop didn't want to acknowledge having two agents in Saudi, thus attempted to get Souki to work somewhat as a subcontractor for Khasshoggi. Apparently Khasshoggi and Souki do not get along, and Souki stated that he wanted to continue to report directly to Northrop, and not to Khasshoggi.

-2-

Thus apparently a deal was worked out whereas he would get some of the money that he had perhaps already earned, and that Northrop would then address themselves to this question as they entered into future contracts directly with Souki. He acknowledged that Souki may have thought he deserved more, inasmuch as he would know how much Khasshoggi might be getting in Saudi sales, and that this perhaps added to their problem with him.

We discussed briefly what Watts believed proper controls to be, he referred us to Corporate Policy Directive No. 72 which he felt was a very viable and working arrangement. He stated that he was presently drafting a memorandum which he thinks is going out under Lloyd's signature which will reaffirm certain of the provisions of CPD 72. He acknowledged also that CPD #10 needs to be rewritten, but that this will be held up until the completion of our work in order that they might incorporate any procedural recommendations that come out as a result of this special investigation. With that the meeting was concluded.

PART B - 6

MATERIAL RELATING TO AGENTS IN LATIN AMERICA

Memorandum

Northrop Corporation, Aircraft Division
3901 West Broadway, Hawthorne, CA 90250

In reply refer to: 1940-71-124
GDM:amf

NORTHROP PRIVATE

To: C. R. Gates

Subject: BRAZILIAN REPRESENTATION

Copies: A. J. Blood
H. W. Deffebach
M. Gonzalez
M. Kuska

From: G. D. McAdams

Date: 26 August 1971

Ref:

J. Hancock
F.W. Lloyd

During my visit to Brazil last April, one of the principal objectives was to meet with Brazilian AF (FAB) Commanders and obtain from them a clear indication as to whom we should select as representative. I had minimal contact with NASA because Northrop had allowed our representational contract with NASA to lapse. Instead, my activities were mainly with and through Gen. John Liset, now Chief of the Air Section, JBUSMC. Unfortunately Gen. Liset was unable to arrange meetings for us with FAB officers in Brazilia or in Rio, and his chagrin was expressed in his letter to T. V. Jones later in May.

During the last visit to Rio, 9-13 August, Moacyr Tedesco and Dr. Bureaux of NASA offered to make appointments with key FAB Commanders and we accepted. (John Liset was out of town) On 11 August, Tedesco and Dr. Bureaux made an appointment with Brigadier Edvio, Commander of the 2nd Tactical Air Force. We visited Brig. Edvio and he arranged for us to show the F-5E film to selected members of his staff. Later the same day, Brig. Edvio arranged for us to see Brig. Vinhacs, top operational Commander in the FAB and next to the Air Minister, one of the most important men in the Air Force.

At one point during our two hour discussions, Brig. Edvio made it very clear to me that NASA is the organization we should have as representative in Brazil. Edvio pointed out that Tedesco is his classmate from flying school and that Dr. Bureaux has been an intimate friend since he can remember. He assured us that Northrop would be in good hands with Tedesco and Bureaux and that anything they might say to him would never be questioned because of his complete faith in them.

NORTHROP PRIVATE

MEMORANDUM

The designation PRIVATE will be cancelled

on 25 Aug. 1972
(Date)

Originator G. D. McAdams 1940
(Name) (Org.)

NORTHROP PRIVATE

Brazilian Representation
26 August 1971

1940171-124
Page 2

NASA has been reconstituted.

A. Pinto Guimaraes remains as majority stockholder but in the future he will operate in the background. Luis Humberto Pereira has been replaced by Moacyr Tedesco and Dr. Bureaux. Tedesco is a retired FAB colonel who is very well placed with the current commanders. Tedesco is a good administrator who has already demonstrated his dedication to repairing past NASA failures in the administration area. Specifically, he can be expected to remedy past difficulties in progress reporting and continuing communication with NAD.

Both Deffebach and I were amazed at the intimate familiarity that Tedesco and Bureaux have with Brigadiers Edvio and Vinhaes and other top FAB officers as well. There is no doubt in our minds that NASA (with these two newly acquired men) would be the best representatives in Brazil for the foreseeable future.

I recommend that NASA be contracted to represent Aircraft Division sales in Brazil.



G.D. McAdams

15 February 1973

Bill Becker left the following comments concerning the attached agreement with NASA:

Please note draft agreement is in two parts: the first 5 pages consist of a consultant agreement which can be shown by NASA to Brazilian tax authorities; the last two pages are an annex that contain the real meat of the compensation.

Please note new paragraph 3d on the next to the last page in which the method and timing of paying the compensation is treated. This has been run by Chuck Benson who confirms it more than adequately covers our costs of early payments to NASA. More precisely, an annual interest rate of 4% (in lieu of 8%) would cover our costs of making these early payments, but I suggest that we go into NASA in the present form and leave the 4% to be negotiated by you in Rio.

I am also leaving a copy of this with Eddington indicating it must be accomplished in final form by Monday evening.

Bill is leaving for Washington at Noon today and would like to talk with you concerning this agreement before he goes if possible.

Jane

Bill Becker called back after he gave the agreement to Eddington. He said he pointed out to Eddington the fact that there is an agreement plus an annex and that there is a 50/40/10% payment schedule. Eddington said not only no but hell no - no way would he recommend that to the General Manager because of risk of cancellation of the contract. He said he would talk to you about it. (Eddington)

Memorandum

Northrop Corporation, Aircraft Division
3901 West Broadway, Hawthorne, CA 90250

In reply refer to:

To: Manuel G. Gonzalez.

From: A. P. Buchiarelli

Subject: Brazil Commission Agent

Date: 16 July 1973

Copies:

Ref:

Review of the Brazil representation file discloses the following items which will require corrective action:

1. The agreement is between NASA and Northrop Western, Inc. I understand that the F-5 procurement contract will be between the Aircraft Division and the Brazilian Government. I am told by Eddington that Northrop Western, Inc. may not be utilized in the future. If this is the case, not only this agreement, but all present agreements initiated on behalf of Northrop Western should be revised to reflect Northrop Corp., Aircraft Division.
2. The agreement is silent on tech data, tech assistance, documentation, tooling, etc. In any redraft, it is suggested that these items be included at no commission.
3. In view of Gen. Trimbal's letter, LGF dated 4 June 1973, the fact that we have entered into two agreements with NASA - one indicating a flat sum payment and one indicating additional compensation - could result in embarrassment to both Northrop and NASA if the U.S. Government discloses agent fees to the FMS customer. A Northrop position on this should be established with NASA should any future aircraft procurement be accomplished under FMS procedures.

Tony
A. P. Buchiarelli

jt

NORTHROP

Memorandum
 Neilson Corporation, Aircraft Division
 2901 Wood Road, St. Louis, MO 63103

NOT FOR RELEASE

to reply only to

To: W. E. Gatch

From: P. H. Champion

Subject: CONSULTANT AGREEMENT RE BRAZIL

Date: 22 March 1974

Copies: C. R. Gates
 M. G. Gonzalez
 M. Kus

Re: Memo to WEG
 dated 28 Jan, 1974

My referenced memo outlined the situation with regard to our Brazilian Consultant's contention that he was entitled to the mission on six (6) additional aircraft @ \$60,000 each due to selling options instead of a larger quantity of aircraft.

Subsequent to that memo, Manny Gonzalez went to Brazil and discussed that situation with Sr. Pinto and his associates and on his return (March 18) discussed the recent developments with you. Because you were in agreement, (at least amenable) to their claim, a settlement was made and a separate consultant agreement was written and executed by C. R. Gates for the Corporation on 21 March 1974. This agreement provides for paying our consultant (in this case Sr. Pinto's son Afonso Augusto Pinto Guimaraes) as follows:

\$75,000 within thirty (30) days and \$50,000 each year thereafter for five (5) years, resulting in a total payment of \$325,000.

P. H. Champion
 P. H. Champion

Concurrence:

Manuel G. Gonzalez
 Manuel G. Gonzalez

*See new
 Brazil
 (Afonso)*

CONFIDENTIAL

NOT FOR RELEASE

**SUPPLEMENT TO THE "REPORT ON SPECIAL INVESTIGATION
OF NORTHROP CORPORATION AND SUBSIDIARIES" BY ERNST &
ERNST**

I. Description of Investigatory Procedures Applied

Other than for a French consultant (Mr. William Savy), the Special Investigation conducted by Ernst & Ernst and Price Waterhouse covered the three calendar years ended December 31, 1973. As to Mr. Savy, the Special Investigation included all years since 1961, the year in which Savy was first engaged by Northrop.

In the Report on Special Investigation, dated November 15, 1974, and in this discussion, no distinction has been made between agents and consultants. It should be recognized, however, that generally speaking, consultants are retained in an advisory capacity for which they normally receive a fixed annual retainer. In most situations they do not deal directly with Northrop customers. Agents, on the other hand, generally deal with customers, provide specific outside services, and are independent contractors. In many cases agents receive a percentage or commission on the sale of Northrop products as payment for their services.

The procedures involved in the special investigation employed the use of the following techniques:

A. Officers narrations - Comprehensive written narrations were requested from key Northrop executives in which they were to describe in detail their specific knowledge as to the matters pertinent to this Special Investigation.

Narrations were obtained from the following officers:

<u>OFFICERS NAMES</u>	<u>POSITION</u>
Thomas V. Jones	President & Chairman of the Board
James Allen	Vice president & Assistant to the President
James D. Willson	Senior Vice President - Finance and Treasurer
Frank W. Lloyd	Senior Vice President - Operations
George F. Douglas	Senior Vice President - Administration
John B. Campbell	Vice President - Controller
George Gore	Vice President & General Counsel

The response to these narrations took many forms, and numerous changes and elaborations were received throughout the approximate six months required for investigation.

B. Questionnaires - A detailed questionnaire relating to the various matters covered by this investigation was developed and obtained from fifty-four Northrop officers and directors.

C. Personal interviews - Approximately seventy personal interviews were held. Those interviews included all of the Northrop directors and corporate officers and the appropriate present and former Northrop executives at the divisional levels. In addition, interviews were held with certain other Northrop employees, and in several instances, with persons

outside the Northrop organization when it was considered appropriate. This was a primary tool of the Special Investigation in both its preliminary and later stages.

Most of these interviews were attended by representatives from Price Waterhouse & Co. in addition to representatives from Ernst & Ernst. In the case of certain of the key interviews, representatives from Northrop's special counsel, Wilmer, Cutler & Pickering, were also in attendance.

D. Detailed analysis of payments made to consultants -

This was the most time-consuming of any of the procedures employed. The procedures involved the following:

1. Data was scheduled regarding all consultants -

One of the initial steps was to obtain a listing or schedule showing data with respect to all consultants employed by Northrop during the three years ended December 31, 1973. These listings or schedules were obtained from the Northrop corporate office and each of its outlying divisional or profit center locations. As to each consultant employed by Northrop during those years, the following information was obtained:

- (i) Name of consultant;
- (ii) Amount of fees and expenses paid during each year;
- (iii) General nature of services provided.

Later, as the special investigation progressed, additional information was obtained, including the name of the Northrop

executive responsible for employing and/or supervising the consultant.

These detailed consultant schedules were reviewed carefully and additional information was requested as appropriate.

2. On-site review of consultant data - After a careful office review and challenge of the consultant schedules prepared by Northrop personnel at its various corporate and divisional locations, Ernst & Ernst investigatory teams, accompanied by a representative or representatives from Price Waterhouse, made detailed reviews of the information reflected on the consultant schedules.

As shown on Table I of the Report, the Northrop locations visited by these investigatory teams accounted for between 83% and 87% of the total payments of fees and expenses to consultants. The amounts shown on Table I are exclusive of certain fees applicable to scientific and technical services.

During such visits, the accuracy and completeness of the consultant schedules were tested by the Ernst & Ernst and Price Waterhouse investigatory teams using comparisons of such data with the various records and other documentation maintained at the corporate and divisional locations.

These procedures were aimed not only at determining that the information shown was correct, but also at obtaining assurance that no consultant had been omitted from the schedules.

Both statistical and judgmental sampling techniques were employed.

3. Extraction and inspection of consultant agreements - As a part of the investigatory procedures, all significant consultant agreements were extracted to determine the following:

- (i) Northrop executive signing the agreement;
- (ii) Reporting responsibilities;
- (iii) Information regarding services performed;
- (iv) Compensation provisions.

4. Confirmations - Confirmations were requested from all listed consultants who received payments totaling \$20,000 or more during 1971, 1972 or 1973, with the exception of certain types of professionals of known reputation or under circumstances in which the nature of the service was obviously not suspect.

These confirmations were signed by an appropriate Northrop executive and requested the following:

- (i) Confirmation of amounts paid during each of the three years ended in 1973;
- (ii) Information concerning any amounts paid or advanced to the consultant, which were returned to Northrop, its subsidiaries, directors, employees or other Northrop representatives;

(iii) Information as to whether any portion of such payments by Northrop had been used to make political contributions or other unusual disbursements (not in the ordinary course of business) at the direction of Northrop, its subsidiaries, directors, employees or other representatives.

As will be seen in Table II of the Report, the response to these confirmations was not generally satisfactory, even though second requests, cables, telephone calls, etc. were utilized in an attempt to obtain replies. It should be observed, however, that the consultants not replying were all located in foreign countries, where long delays or difficulties in obtaining replies are not uncommon.

Assurances were obtained from the three principal law firms representing Northrop as to their full disclosure to Ernst & Ernst of matters within their knowledge pertinent to the Special Investigation.

5. Follow-up procedures for selected consultants -

As a result of the above procedures, certain consultants were isolated, based upon the following factors, for more specific, detailed inquiry:

- (i) The existence of unusual contract provisions;
- (ii) Commission rates which varied from rates paid to others for the same or comparable services;
- (iii) Large or unusual payments;
- (iv) The nature of the services performed;

(v) The identity of the Northrop executive requesting the services.

Emphasis was placed on foreign consultants and on situations where services performed were associated with marketing and related activities rather than with scientific and technical services. Follow-up procedures included:

- (i) Reviews of correspondence files;
- (ii) Further inquiries of key Northrop personnel concerning their knowledge as to the services or of the unusual matters noted.

The extent of these procedures varied depending on the nature of the matter being pursued and the responses received. In two instances, personal interviews were conducted directly with the consultants involved. These were William Savy, the French consultant, through whose assistance funds were made available for the political contributions made in the 1972 Presidential campaign, and Francis J. De Francis, a Washington D. C. attorney-consultant who worked with the Company on a number of overseas matters and who received a portion of the Savy - provided cash funds in connection with the performing of his services to Northrop.

6. Additional Specific Areas of Investigation -

In addition to the specific procedures previously described, numerous other investigatory procedures were employed, among which were the following:

(i) Expense accounts for over twenty key Northrop executives were reviewed in detail;

(ii) The various compensation records and arrangements for the seven key corporate office executives and the chief executive at each divisional location, were reviewed;

(iii) The personal bank records and tax returns of seven key corporate officers were obtained and subjected to detailed examination;

(iv) The use of Northrop facilities for possible political purposes was reviewed. This included among other things an executive aircraft and a hunting lodge in Maryland;

(v) Internal policy and procedure statements, internal audit department reports and similar documents were reviewed as appropriate.

DOCUMENTS RELATING TO FOREIGN SALES & OPERATIONS OF

LOCKHEED AIRCRAFT CORP.

Released by
Committee on Foreign Relations
Subcommittee on Multinational Corporations

United States Senate

EMBARGOED FOR USE: September 12, 1975

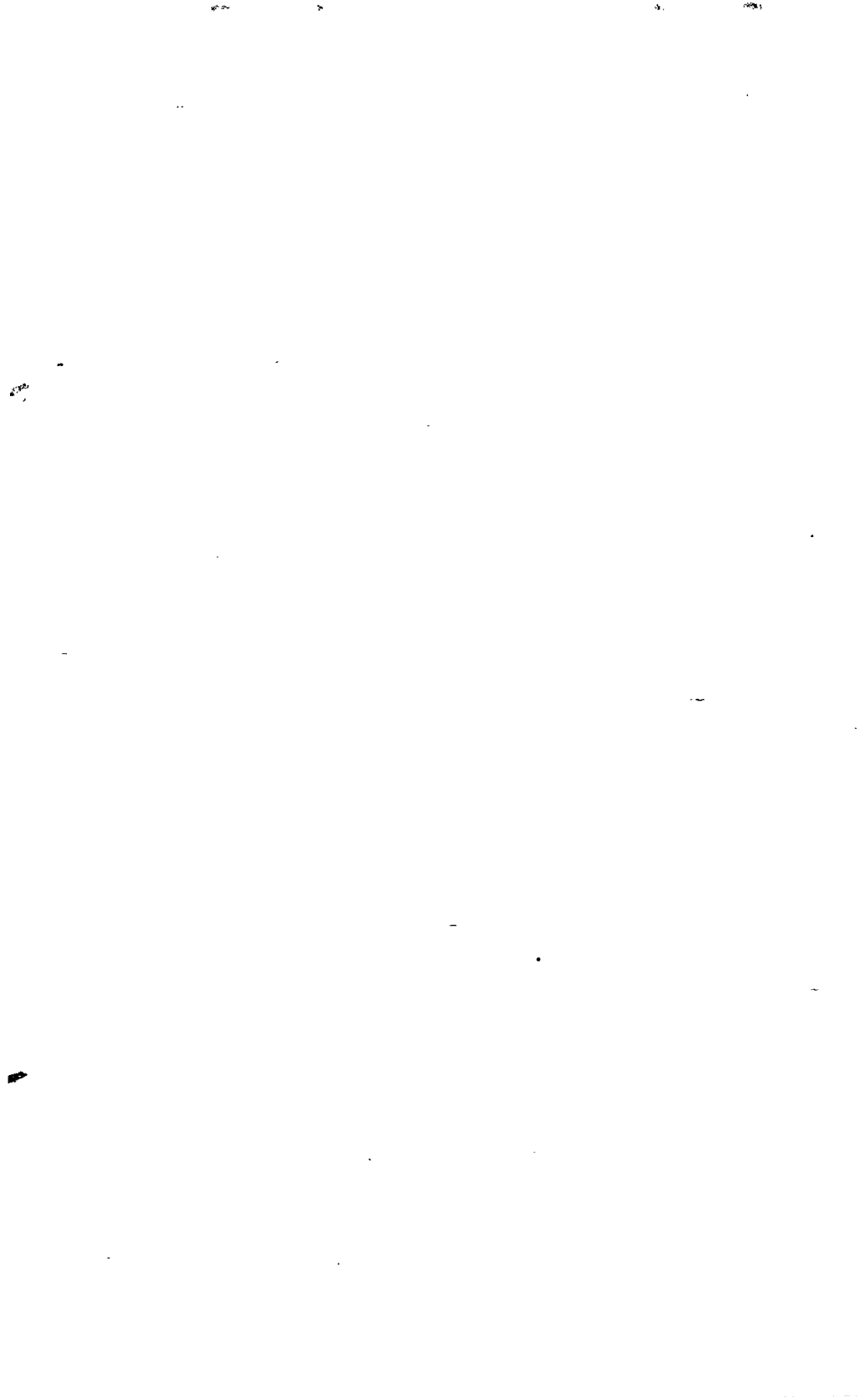
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INDONESIA

(935)



LOCKHEED FORM 12 DATA

LOCKHEED AIRCRAFT INTERNATIONAL, INC.

INTERDEPARTMENTAL COMMUNICATION

TO W. G. Myers - CORLAC

DEPT.

BLDG.

PLANT

JWC-5P34
DATE August 11, 1955

FROM J. W. Clutter - LAIL

DEPT.

BLDG.

PLANT

EXT.

SUBJECT:

During the Division Managers meetings at Sunnyvale, I mentioned to you that I had received a letter from Marion Vandiver concerning Indonesia President Sukarno recent visit to France and his negotiation for Sud Aviation Co. helicopters and Fokker F-27's and F-28's.

In these aviation programs our representatives the Dasaad Musin Concern are representing Sud Aviation and presumably Fokker as well. This is of course in violation of the provisions of the Lockheed agreement with Dasaad Musin however to be realistic we both agreed nothing should be done about it since Dasaad does occupy a unique position in dealing with the Indonesian Government and with Sukarno himself. As long as Dasaad can be equally effective in the sale of Lockheed products, whenever we can sell to Indonesia, we seem to have no alternative but to continue to work with him.

I am enclosing a copy of Vandiver's letter as you may find his general report of interest. Alice and I enjoyed being with Free and you if only for a short period. Hope we will both be home during the same period in the near future so we can get in that golf game.

Best regards,


J. W. Clutter
JWC/fk
Encl.

Memo for File

LOCKED PRIVATE DATA

June 11, 1965

W. G. Myers

0201

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A1

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INDONESIA

JUNE 7, 1965:

Ed Hausman and Chuck DeBedts called and said Indonesia wants fourth JetStar. Gela has submitted contract terms and price to Djakarta through their Ned Ridings. We quoted \$1,874,000--the same price quoted on the No. 3 ship. Indonesia said they wanted us to price it at \$1,974,000 and then pay additional commission to Dasaad. The price of the third airplane had already been upped \$100,000 for the same reason. The Indonesians threatened that if we do not agree they will buy a Caravelle. The last time they threatened to buy an F-27 unless we complied. The same technique has been used in pricing of Staffpak, JetStar No. 3 and a C-130 in one case. The commission to Dasaad on the fourth airplane would then be \$200,000 plus 3% on \$1.7 million. Gelac question to us: Should we agree? I promised to discuss with Kotchian and Houghton and advise.

JUNE 8, 1965:

- 7:45 am D. J. Houghton and I discussed this. I stated I felt we should hold at \$1,874,000; that this hanky-panky had gone far enough. We discussed the various ethics of it, and agreed that even though it would not be costing the company or the U.S. (ostensibly) any money, it just isn't right, and there is a limit somewhere to going along with this. Dan asked me to check with Carl, and if he did not agree we three should get back together again.
- 8:00 am I spoke with Carl. He did not feel strongly on it--could go either way, and would be willing to go to the \$1,974,000 price if necessary. We agreed I would call Gela and tell them we preferred \$1,874,000, and tell them to make another try at that number.
- 8:30 am Called Hausman and DeBedts. They stated Bob Mitchell wants to deal at \$1,974,000, and so they were doubtful they could negotiate further; but said they would discuss and call back.

Memo for File
004462

June 11, 1965

JUNE 3, 1965 (Continued)

12:00 Noon Chuck and Ed reported no room to argue further. Need to take firm position one price or another. Gelac will abide by our decision.

JUNE 9, 1965:

4:45 PM Discussed with A. C. Kotchian and D. J. Haughton. Dan indicated he wanted to stay firm on \$1,874,000. Carl Kotchian confirmed this to me again following that meeting.

JUNE 10, 1965:

8:00 AM I called Ed Hausman and told him our Corlac decision was to stick at \$1,874,000.

W. C. Myers
W. C. Myers

cc: D. D. Stone/B. Zels

LOGGED PRIVATE DATA

ALBAHAVA T230

Rome, Italy
9 July 1965

Mr. J. J. Baker
West Street
Apt. 14, California

Dear Jack:

I have returned from Paris having spent a few days there with President Sukarno, A. M. Dassaad, et al. Other than general conversation, which is normal on their type of safari, politics considered, I have the following to report.

There was a great disappointment in the postponement of the Afro-Asian Conference in Algiers. Red China had planned to use this as a lever to not only show their strength with the South-East Asian nations but also as a penetrating force in the new African states. Indonesia's relationship with Red China has been close during the past year. China has supplied not only material but also out finances running into the millions of dollars. Red China's immediate recognition of the new Algerian regime indicated their approval of the new government. However, Colonel Boumedienne is not living up to what China planned. Indonesia now claims that its position has been saved by the postponement, as they feared Malaysia would eventually be invited. President Sukarno had planned to blast the capitalists, imperialists, and neo-colonialists in his speech at this meeting at Algiers. To everybody's benefit, especially ours, this did not materialize due to the postponement. The sum total is that Red China's position has weakened along with Sukarno's.

The purpose of President Sukarno's visit to Paris after his meeting in Cairo with President Nasser and Ho En Lai was to promote more French credits. French industry, as well as the French government, is doing its best to expedite more business with Indonesia in the form of heavy engineering and aircraft. Our representatives Dassaad and Concern are representing French industries including Sud Aviation. Sud Aviation will sell three helicopters to Sukarno. They are also trying to sell their other aviation products. Citra is also pushing to continue its contracts in the heavy construction field.

Fewer people from Holland were also present in Paris for the sale of the F-27 and F-28 to the Indonesians. Holland has asked for credit to Indonesia and the prospect for a Fokker machine for the Dutch. Most raw products, such as

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... rubber, prices, will be sold through the Dutch. This was the assurance given prior to Indonesian independence. Bank Indonesia has expanded its operations in Holland to clear this business. This is the strategy used by the Dutch to guarantee the payments on the extended Indonesian credit.

Garuda Indonesia has purchased four DC-8s. Twenty million dollars has been paid in cash. This money was provided by Subandrio's Foreign Affairs Fund. The source of this money is not quite clear but it is rumored from reliable sources that the biggest share came from a cash loan from Red China.

With regard to Lockheed's products, Garuda has experienced cracks in the wings of the Electras, also an acute shortage of spare parts. Sam Stevenson has explained to me the reason for the spare parts' shortage. It's the lack of initiative on the part of Garuda, and presumably our agents' efforts, to extend the letter of credits for the purchase. The cracks in the Electra wings are probably similar to the alarm over the Australian Electra's, and perhaps Garuda has not received the necessary bulletins, inspection notices, or has failed to carry them out. In any case, it is reported that Garuda has grounded two of the aircrafts pending news from Burbank.

The C-130s are only partially in operation due to a lack of spare parts. This is understandable because of Washington's policy on exports for military equipment to Indonesia. However, with the Indonesians it is not understandable because of the Aero Commanders that will be delivered to the Indonesian army during the next two months as well as the third Jet Star that will be delivered in August. In addition, the P-27s are powered with the British Rolls Royce Darts. Washington's contention is that they are under pressure from the British not to provide aviation material to Indonesians because of their support to Malaysia during the confrontation between Malaysia and Indonesia. The same situation exists with American shippers who are selling ships' spares to Norway for the Indonesian Merchant Marine. To alleviate the spare parts' shortage for Lockheed equipment I have pressed A. M. Dasaad to follow up the after sales service for our equipment and explain to the president ways and means to get around Washington's embargo against Indonesia so that Lockheed can supply the necessary spare parts. Robert Mitchell of the Georgia Division has suggested that Garuda purchase one C-130 so that spare parts for the total fleet could be purchased through Garuda. I have given this idea to Dasaad and the President. We should know the outcome shortly.

The Indonesian group will arrive in Rome July 10th. My plan is to review again with them their requirements in all items that involve LAL. Due to my past experiences with the company I know it is not advisable that LAL get involved in the other divisions' business, but with my difficulty with Rieks over the sale of the last two Jet Stars. Therefore, I am in direct contact with the Georgia division.

California division. I do not know how LAI could play a part in this other than benefitting in the future.

I recommend that we follow through with what is necessary to keep Lockwood's name in the forefront in Indonesia. I will continue to maintain close personal relationship with the responsible parties of the Indonesian government.

I will be in the United States in September. In the meantime you can find me at my Stockholm address. Kindest regards,

Sincerely yours,



Marion P. Vandiver

INTERDEPARTMENTAL COMMUNICATION

TO E. J. Hausman - GELAC
J. H. Keen - GELAC

DEPT/
OAGMBUDG/
ZONAPLANT/
TAC

DATE August 20, 1965

M65-89

FROM D. D. Stone - CORLAC

DEPT/C2-01
OAGMBUDG/ 61
ZONAPLANT/A-1
TAC

EXT. 6646

SUBJECT: DASAAD/INDESCO RAYA DOCUMENTATION

Attached for your review are documents which accomplish the following:

1. Cancellation of Dasaad Musin Letter Agreement M65-11 re additional commission on JetStar spares (M65-88)
2. Exclusion of \$100,000 from the price of the JetStar Airplane described in Contract No. GLX-21 in calculating commission under Dasaad Musin Agreement (M65-87)
3. Creation of Consultant Agreement with P. T. Indesco Raya, new company established by Izanac Dasaad and his brother (M65-81)
4. Establishment of GELAC Products Agreement with Raya to pay certain "special" compensations which are in addition to those payable by the normal terms of the Dasaad Musin Agreement. Incorporates additional payments originally to have been provided for in M65-11, M64-12 and M64-87. (M65-82)

We are enclosing two (2) IDC's from Bob Canan which state the risks he feels we take in entering into the P. T. Indesco Raya agreement. Ike Dasaad has had the completely executed copies in his possession and presumably still has the original of M65-11. The completely executed copies of M64-12 and M64-87 have been held by us, and it would therefore seem that they do not pose the same hazard.

Will you please discuss the documents and the memo with your counsel and let me have your recommendations.

D. D. Stone
D. D. Stone

Enc.: M65-83
M65-87
M65-81
M65-82

IDC, Canan to Zeis dated August 19, 1965
IDC, " " " " " " 23, 1965



May 14, 1965

M65-88

Enclosed Main Concern
3-5 Djalan Tjengrah
Djakarta-Neta, Indonesia

Gentlemen:

This will confirm our mutual understanding and agreement as hereinafter set forth regarding that certain Agreement between us dated January 1, 1963, bearing the symbol SL/143483, as heretofore amended by Letter Agreement M65-11 dated March 4, 1965.

A. Said Letter Agreement M65-11, providing additional compensation with respect to JetStar Spare Parts sold pursuant to Amendment No. 2 to Contract No. GLX-16 between Lockheed Aircraft Corporation and the Government of the Republic of Indonesia, is hereby cancelled in its entirety as of May 14, 1965. Compensation with respect to such Spare Parts shall be payable only in accordance with Representation Agreement SL/143483 as otherwise amended.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, kindly so indicate by signing in the space provided below, and by returning to us both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, we will complete execution thereof and return the original to you for your records.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By _____

W. Gifford Myers
Vice President-Marketing

The foregoing correctly sets forth
our mutual understanding and
agreement in the premises.

Dated as of May 14, 1965

ENCLOSED MAIN CONCERN

March 3, 1954

M65-37

Djoean Hutan Concern
3-5 Djalan Djenglich
Djakarta-Kota, Indonesia

Gentlemen:

This will confirm our mutual understanding and agreement as hereinafter set forth regarding that certain Agreement between us dated January 1, 1953, bearing the symbol GL/149433 and the Exhibit thereto, as such Agreement and Exhibit have heretofore been amended.

1. Lockheed Aircraft Corporation has entered into Contract No. GLX-21, dated 6 November 1953, with the Government of the Republic of Indonesia for the sale of one Model 1429 Jetstar airplane (hereinafter referred to as the "Airplane") at a purchase price of \$1,340,000.

2. Notwithstanding the provisions of that certain Agreement dated January 1, 1953, (GL/149433) and the Exhibit thereto, as such Agreement and Exhibit have been heretofore amended, and notwithstanding the purchase price of the Airplane set forth in Contract No. GLX-21, 2% of \$1,740,000 (or \$34,800) shall be payable as commission.

3. It is further understood and agreed that the payments made pursuant to this Letter Agreement are in lieu of any and all commissions which might otherwise be payable by Lockheed under Representation Agreement GL/149433 in connection with the sale of the Airplane under Contract GLX-21.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, kindly so indicate by signing in the space provided below, and by returning to us, both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, we will complete execution thereof and return the original to you for your records.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

By W. Clifford Myers
Vice President-Marketing

Dated as of March 3, 1954

M69-31

CONSULTANT AGREEMENT

THIS AGREEMENT is entered into as of May 15, 1966, by and between LOCKHEED AIRCRAFT CORPORATION, a California Corporation with its principal office and place of business in Burbank, California, U.S.A., (hereinafter called "Lockheed"), and R. T. HENDRO RANA, a corporation with an address at Djalan Fatmahan 10, Djakarta, Indonesia, (hereinafter called "Consultant"). The parties hereto agree as follows:

1. In consideration of services, consisting of liaison assistance and counsel furnished by Consultant to Lockheed with respect to certain sales by Lockheed to customers in Indonesia, Lockheed shall reimburse Consultant in accordance with Products Agreements supplementing this Consultant Agreement.
2. Payment hereunder shall be made upon completion of delivery of the product and upon completion of performance of the services specified in said supplementary Products Agreements, except that if final payment of the sales price is to be made after completion of delivery or performance and Lockheed does not have assurances satisfactory to it that final payment will be received, Lockheed shall determine prior to the time of completion of delivery or performance the manner in which, and any reduction in the amount which, Consultant shall be paid and shall notify Consultant thereof. Such manner and reduction in amount of payment by Lockheed to Consultant shall bear a reasonable relationship to receipt of payment by Lockheed. Such payment shall be directed to Consultant at the address set forth above or at such other address as Consultant specifies in writing.
3. All sums of money mentioned herein refer to lawful money of the United States of America, and all payments pursuant to this Agreement shall be made in such money.
4. Consultant shall act as an independent contractor in performing services hereunder and shall neither be, nor represent itself to be, an agent or an employee of Lockheed. Consultant may neither accept, approve nor execute any order or contract or other agreement on behalf of, or in the name of, Lockheed.
5. Consultant shall assume and discharge for its own account all costs and expenses incurred in connection with its activities pursuant to this Agreement.
6. Neither all nor part of this Agreement, nor monies due or becoming due to Consultant hereunder, may be assigned or transferred by Consultant without the prior written consent of Lockheed.
7. This written instrument, as it may be supplemented by Products Agreements specified above, constitutes the entire agreement between the parties and may not be otherwise varied or amended except by written instrument executed by both parties concurrently with or after the execution of this Agreement. The laws of the State of California in the United States of America shall govern the interpretation and construction of this Agreement.
8. The term of this Agreement shall commence as of May 15, 1966, and shall continue until this Agreement is terminated by either party upon thirty (30) days' notice to the other party, given either by registered mail, cable or radiogram directed

BEST AVAILABLE COPY

R59-81

to the appropriate address set forth above or to such other address as may have been specified in writing. The termination of this Agreement shall not relieve Lockheed of its obligation to pay to Consultant sums pursuant to this Agreement with respect to any contract of sale described in the above mentioned complementary Products Agreements which is accepted and approved by Lockheed prior to such termination.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LOCKHEED AIRCRAFT CORPORATION

By _____
W. Gifford Hyatt
Vice President-Marketing

P. T. INDRACO RAYA

By _____
Ismael Rasmad
Vice President

May 15, 1965

N65-82

P. T. Indesco Raya
Djalan Pattimura 16
Djakarta, Indonesia

Gentlemen:

Subject: PRODUCTS AGREEMENT - LOCKHEED-GEORGIA COMPANY

1. In connection with your Consultant Agreement N65-31 dated May 15, 1965, this will confirm our mutual understanding and agreement, supplementing the provisions of said Consultant Agreement.

2. (a) Lockheed Aircraft Corporation entered into Letter Agreement G63/7599L with the Government of the Republic of Indonesia on January 6, 1964. This Letter Agreement provides for the furnishing of services and materials to the Republic of Indonesia by Lockheed for (1) emergency corrosion repair on eight C-130B airplanes, (2) overhaul and repair of two C-130B airplanes and on the job training of AURI personnel and (3) assistance in establishing a C-130B overhaul and repair facility at Bandung, Indonesia. The Letter Agreement requires that services and materials to be furnished be more fully detailed in formal amendments to Contract G59-1600.

(b) With respect to direct sales made pursuant to said Letter Agreement G63/7599L and pursuant to amendments to Contract G59-1600 resulting therefrom, the following compensation shall be paid:

- (i) 3% on all services furnished pursuant to paragraphs 1 and 3 of said Letter Agreement.
- (ii) 3% on the total sum payable under paragraph 2 of said Letter Agreement including personnel per diem for AURI trainees.
- (iii) 3% on all materials (including Spare Parts, ACE, Facilities and Supplies) furnished pursuant to paragraphs 1 and 3 of said Letter Agreement.

The above compensation provisions do not extend to other field service contractual coverage nor shall they apply to spare parts and ground support equipment sold under other contracts or contract amendments.

3. (a) Lockheed Aircraft Corporation has entered into Contract No. CMI-21, dated 6 November 1963, with the Government of the Republic of Indonesia for the sale of

1259-92

one H-241 1,200 JetStar airplane (hereinafter referred to as the "Airplane") at a purchase price of \$1,650,000.

(b) Notwithstanding the purchase price of the Airplane set forth in Contract No. GAK-21, 1/3 of \$1,750,000 (or \$17,430) and a "Special Fee" of \$150,000 shall be paid to Consultant, constituting a total of \$117,430.

4. With respect to JetStar spare parts sold pursuant to Amendment No. 2 to Contract GAK-16 between Lockheed Aircraft Corporation and the Government of the Republic of Indonesia, Lockheed shall pay Consultant three per cent (3%) of the sales price thereof and an additional fee of \$30,000.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, kindly so indicate by signing in the space provided below, and by returning to us both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, we will complete execution thereof and return the original to you for your records.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By W. Gifford Myers
Vice President-Marketing

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

Dated as of May 15, 1965

P. T. IDESCO RAYA

By Isaac Basco
Vice President

INTERDEPARTMENTAL COMMUNICATION

TO Betty Zeis DEPT./ 02-01. BLDG./ 61 PLANT/ A1 DATE 8/19/65
 DIVISION

FROM Robert H. Canan DEPT./ BLDG./ PLANT/ INT.
 DIVISION DIVISION DIVISION DIVISION
 SUBJECT PROPOSED CONSULTANT AGREEMENT AND PRODUCTS AGREEMENT - LOCKHEED AIRCRAFT CORPORATION AND P. T. INDESCO RAYA

This is with respect to our discussion on Tuesday concerning the proposed Consultant Agreement between Lockheed Aircraft Corporation and P. T. Indesco Raya and the proposed Products Agreement supplementing that Consultant Agreement.

Under dates of February 6, 1964, March 3, 1964 and March 4, 1965 Letter Agreements were prepared between LAC and Dasaad Musin Concern with respect to the payment of certain commissions and special fees concerning the sale of therein described products by Celuc to the government of the Republic of Indonesia. I understand that although these three Letter Agreements were signed by both a representative of Dasaad Musin Concern and by Mr. Myers on behalf of Lockheed Aircraft Corporation that they were never delivered to Dasaad Musin Concern and that all copies signed or unsigned are or will be in your hands. I further understand that in an effort to carry out the wishes of Dasaad Musin Concern and the new company P. T. Indesco Raya it is now proposed that these Letter Agreements mentioned above be withdrawn and not delivered to Dasaad Musin Concern and that in their stead the proposed Consultant Agreement and Products Agreement be entered into between LAC and P. T. Indesco Raya. This should only be done after the advice and opinion of Division Counsel for Celuc has been obtained as to whether the February 6, 1964, March 3, 1964 and March 4, 1965 Letter Agreements can be so withdrawn without liability to LAC.

There is an additional problem which is presented by an assignment dated August 22, 1956 under which A. M. Dasaad and Dasaad Musin Concern assigned one-third "...of the amount due me, A. M. Dasaad or Dasaad Musin Concern N. V.; 3/5, Djalan Tjengkeh, Djakarta, Indonesia or to whomsoever Lockheed Aircraft Corporation pays the commissions or monies due from all sales of aircraft, engines, spare parts and services included in my representation or agency for Lockheed Aircraft Corporation". As I read this assignment it means that where aircraft, engines, spare parts and services covered by the Representation Agreement of January 1, 1958 between LAC and Dasaad Musin Concern are sold and amounts are paid by LAC either to Dasaad Musin Concern "or to whomsoever LAC pays the commissions or monies due" from such

Betty Zeig

August 19, 1965

sales, one-third of that amount is subject to this assignment. Since all the products covered by the proposed Consultant Agreement and Products Agreement with P. T. Indesco Raya, except services and personnel per diem for AURI trainees, are also covered by the January 1, 1958 Representation Agreement, it is my opinion that the assignee under this assignment would be on a basis for contending that the assignment covered commissions provided for in the proposed Consultant Agreement and Products Letter with P. T. Indesco Raya. This contention could be made on the ground that P. T. Indesco Raya falls within the terms "to whomsoever Lockheed Aircraft Corporation pays the commissions" and that since the sales, with the exception mentioned above, are of products covered by the Representation Agreement of January 1958 they are included within that assignment. For this reason I am not able to advise that the proposed Consultant Agreement and Products Agreement with P. T. Indesco Raya is clear of the problem presented under the August 1956 assignment. If we make the payments provided for under the proposed Consultant Agreement and Products Letter without observing the assignment obtaining a written agreement from the assignee that the assignment does not apply, we would do so with the risk that the assignee under the August 22 1956 assignment may make a claim and may prevail in his claim that he is entitled to one-third of those amounts.

Robert H. Canan
Robert H. Canan
Assistant Chief Counsel

RHC:tgk

INTERDEPARTMENTAL COMMUNICATION

	D. D. Stone	DEPT./ COUN.	PLNG./ ECON.	PLANT/ FAC.	DATE 8/23/63
FROM	Robert H. Canan	DEPT./ COUN.	PLNG./ ECON.	PLANT/ FAC.	EST.
SUBJECT:	PROPOSED CONSULTANT AGREEMENT AND PRODUCTS AGREEMENT - LOCKHEED AIRCRAFT CORPORATION AND P. T. INDESCO RAYA				

This is with further reference to my memorandum of August 19, 1965 to Betty Zeis on the above subject.

Betty came over last Friday with the information that the Letter Agreement of March 4, 1965 between Dasaad Musin Concern and Lockheed had, contrary to the information she had at the time I wrote my memorandum of August 19, actually been delivered to Dasaad Musin Concern. Therefore, it is necessary to cancel that March 4, 1965 Letter Agreement if it is determined to go forward with the proposed Consultant Agreement and Products Agreement with P. T. Indesco Raya. I advised Betty that the letter dated May 14, 1965, designated M65-88, which she brought over seemed to me in proper form to accomplish a cancellation of the March 4, 1965 Letter Agreement designated M65-11.

I must advise, however, as I stated to Betty Friday, that this situation casts further risk on our proceeding with treating the proposed agreements with P. T. Indesco Raya as independent of the Dasaad Musin Concern Representation Agreement. Certainly having executed and delivered the March 4, 1965 Letter Agreement with Dasaad Musin Concern covering part of the same fees and commissions now proposed to be covered by the proposed agreements with P. T. Indesco Raya, will be valuable evidence to the assignee under the August 22, 1956 assignment if he takes the position that the fees proposed to be paid under the agreement with P. T. Indesco Raya are covered by that assignment. I regret having to advise that this is the case but the fact remains that if it is decided to treat the commissions and fees under the P. T. Indesco Raya proposed agreement as being free of the obligations under the August 22, 1956 assignment, that decision should only be made after weighing the risk I mentioned in the August 19, 1965 memorandum which I now believe is accentuated by the fact that the March 4, 1965 Letter Agreement was executed by both parties and delivered to Dasaad Musin Concern.

Robert H. Canan

Robert H. Canan
Assistant Chief Counsel

RHC:tgk

MEMO TO FILE

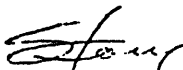
May 20, 1966

SUBJECT: INTERNAL REVENUE SERVICE -
LOCKHEED - DASAAD MUSIN CONCERN, N.Y.

On a recent audit of Gelac accounts the Internal Revenue Agent questioned the commissions paid to Dasaad Musin Company during 1964. These amounted to about \$152,000. He was apparently mainly concerned with the fact that the money was paid, one-third to a numbered Geneva account and two-thirds to the Wells Fargo Bank in San Francisco. He wanted to know what Dasaad did with the money, apparently feeling that if there were a payoff in the United States such a thing would contravene public interest and thereby create a situation where he should disallow these payments as a business expense. The answer, of course, is that we paid Dasaad this \$152,000 as a commission on a sale to the government of Indonesia. We paid him this commission as and where directed by him to fulfill our legal obligation. We have no knowledge or concern with what he did with his commission after he received it.

The IRS Agent has requested certified copies of the checks involved together with a copy of the letters of transmittal and a copy of our agreement with Dasaad (M64-86 only). These items are being collected by Frank Kupfer in the Tax Department and we are very glad to comply with the request of IRS.

The foregoing action has been cleared with the Lockheed Corporate Tax people, the Corporate Legal people and I have discussed the same with Giff Myers who approves of this action subject to approval by Tax and Legal. Both of the latter feel this is proper action to take.



D. D. Stone

DDS:mlg

LOCKHEED INTERNAL DATAINFO FOR FILE

15 November 1966

SUBJECT: INDESCO RAYA (DASAAD)

Ned Ridings, of Gelac, visited Indonesia departing there on 16 October 1966. While in the country, he checked into the status of Dasaad regarding Dasaad's governmental standing since the change of government and setback of former President Sukarno. Visits with Dasaad indicated a feeling that the Indesco Raya Company was still operating from a position of some strength, but Ned felt he needed further confirmation. As result, he went to the U. S. Embassy in Jakarta and asked them specifically whether Dasaad could continue, under the new regime, to be of value to Lockheed.

The U. S. Embassy indicated that Dasaad was still in good standing, and went so far as to say that we should, "be careful and give a lot of thought before we changed our representative in Indonesia". Apparently Dasaad has made the transition from Sukarno to Suharto in good shape. He has been assigned several important missions for the regime and was the first person to obtain a permit to travel outside of the country. His initial trip was one to Tokyo to give assurance that the oil industry in Indonesia would survive and no changes in its status would be made. As result, the Embassy people think we should continue to use him.

August Dasaad told Ned, and this too was confirmed at the Embassy, that he was being used as something of a bridge between the new regime and Sukarno. The newspapers will indicate that Sukarno's latest, pretty Japanese wife is this bridge, but this is not necessarily true. There is always the possibility that the present government is merely using Dasaad and may have him on the list for liquidation somewhere down the line -- but there is no reason to think so right now.

Another angle, _____, during a recent trip to Washington, told Bob McCune, in our Washington office, that we should not deal with Dasaad but should use a new company that has been set up under sponsorship of the new regime. The name of the new company is not immediately available, but I understand it managed the Indonesian POKKER program. The American Embassy discouraged our use of the new company on the grounds that since it is a government device, we would probably lose some advantage in that it would not be as eager to sell for us as Indesco Raya. At a later date, _____ visited Gelac and although he was given every opportunity, and was virtually led into a position to repeat his remark about use of the government company, he did not do so. However, he apparently brought it up again upon his return to Jakarta. As result of this, Ned Ridings laid it on the line to Dasaad, told him that internal forces were making noises, and asked Dasaad if he could fix it up. Dasaad said that he could fix it.

Gelac is presently preparing a proposal to the government of Indonesia for rehabilitation of their C-130's to be submitted about 1 December 1966. Indesco Raya has spare coverage under this proposal and will be paid commission on the spare parts. However, Gelac is covering itself from a price standpoint by including sufficient funds in the price to also pay government-sponsored firm in case we are forced to do so.

[Signature]
D. D. Stone

LOCKHEED-GEORGIA COMPANY
Interdepartmental Communication

G67/3622

To: D.W. Cederberg Dept: 69-51 Zone: 3 B/8/67

From: N.C. Ridings Dept: 69-51 Zone: 3 Ext: 7766

Subject: LOCKHEED AGENT IN INDONESIA

Since the advent of the coup in Indonesia, in September 1965, there has been considerable question within the Lockheed organization as to retaining or cancelling our agency agreement with the Dasaad in Indonesia. Up until now it has been my feelings that we did not know enough about Dasaad's connections with the present Indonesian Government to allow us to make a decision. Since September 1965, during my several visits to Djakarta, I have tried to obtain information that would enable me to make a decision regarding this matter. I am now of the opinion that Dasaad is well connected with the present Indonesian Government. The following is a summary of events which has lead me to this decision:

On 23 September 1966 D.H. Stillman - Dept. 70-52 - received a telephone call from a Mr. Bob Hasan in Washington, D.C. regarding the purchase of a JetStar for General Suharto, present Head of the Indonesian Government. (Bob Hasan is an old acquaintance of Stillman's dating back to Stillman's days with Aero Commander and his sales activities in Djakarta). Hasan related to Stillman that he was in the U.S. travelling with the Indonesian delegation who at that time was in New York City regarding Indonesia's re-entry into the United Nations. According to Hasan, the Indonesian Army was planning to buy an executive jet aircraft for General Suharto and was considering the purchase of a Lear Jet. Hasan stated that he had brought to their attention that AURI already had three JetStars and if they were considering an executive jet for Suharto it made good sense to buy a JetStar rather than another type aircraft. Hasan requested Stillman to investigate the immediate delivery of a JetStar, price, etc. and call him back with this information as soon as possible.

Stillman reported this inquiry to the Export Sales Department and a meeting was held attended by Stillman, Wilkerson, Cederberg, and Ridings to discuss the aspects of this proposition. Stillman was advised by Wilkerson to inform Hasan that he would be contacted by Export Sales regarding the possibilities of this transaction. Realizing that a deal such as this would involve a commission for the party involved and Gelac already having a binding agency agreement with Dasaad in Indonesia, it was decided that Gelac would not introduce a third party.

On 24 September Ridings called Hasan at his hotel in Washington and advised him that we could make a JetStar available in January 1967. Also, we would like very much to sell a JetStar to General Suharto but we had an agent in Indonesia and we would have to handle such a deal through this agent. Also, that we understood in a deal such as this there would be a fee involved and our recommendation was that, upon his return to Djakarta, work with our agent and advise us the total fee necessary and this could be worked out. Hasan stated that he could not work with Dasaad on this and gave as his reason that he was connected with the present

governing regime in Indonesia and due to Dasaad's close association with President Sukarno he could not even discuss this with Dasaad. Hasan was advised that we were sorry to hear he could not work with our agent on this matter but we would not violate our agreement with our agent any more than we would violate any agreement with him if he were our agent. (As of this writing, nothing more has ever been heard from Bob Hasan, nor has the Indonesian Government bought an executive jet for Suharto. General Suharto and his cabinet members use the AURI JetStar for travelling within and sometimes outside Indonesia).

In relation to the above events - on 24 September Bob McCune of the Washington office had arranged for a game of golf for Hasan, Air Marshal Rusmin, Colonel Wisnu, and himself at one of the local country clubs in Washington, D.C. During the game Hasan made the following statement to McCune in the presence of Air Marshal Rusmin. Hasan stated that the AURI did not want to do any more business with Lockheed-Georgia Company if it involved Dasaad as Lockheed's agent. McCune reported this to Wilkerson and stated that although Hasan made this statement in the presence of Rusmin, Rusmin made no comment. Air Marshal Rusmin and Colonel Wisnu were scheduled to visit Celac on September 30 and it was decided that if Rusmin introduced the subject regarding Dasaad being Lockheed's agent this matter would be discussed but if Rusmin did not introduce the subject then we would not bring it up. Rusmin and Wisnu visited Celac as scheduled. During their visit two meetings were held in the CORLAC Conference Room, Tom Hay hosted Rusmin for lunch in the Executive Dining Room and Rusmin and Wisnu were given a tour of the factory and C-5A mock-up. That evening Rusmin and Wisnu were hosted for dinner at Top of the Hart by E.J. Hausman with Charles Jackman and Frank Ochsenfeld attending. At no time during the visit to Celac did Rusmin or Wisnu ever bring up the subject of Dasaad being Lockheed's agent or indicate in any way their dissatisfaction with this arrangement.

On the night of September 30 Ridings departed Marietta for Indonesia accompanied by a liaison engineer and Product Support Rep. to conduct a preliminary survey regarding a PAR MOD program. This team arrived in Djakarta on October 4 and departed Djakarta on October 16.

After arriving in Djakarta Ridings met with Dasaad Sr. and Dasaad Jr. and related to them the events that had occurred in the states regarding Hasan contacting Celac about a JetStar for Suharto and his statement that he could not discuss this with Dasaad. Naturally, the Dasaads are acquainted with Hasan and are aware of his association with the present Army regime. Dasaad Sr. advised Ridings not to worry about this and went on to relate his present activities and association with General Suharto, Adnan Malik and Sultan Buwomo.

LOCKHEED AGENT IN INDONESIA
C67/3622

August 8, 1967
Page Three

On Saturday, October 15 Ridings met with others in attendance at this meeting were at AURI Headquarters and (Prior to this meeting Ridings had been in Indonesia twelve days and no one from the AURI had made any mention of the supposedly dissatisfaction within the AURI regarding Dasaad being Lockheed's agent). The purpose of this meeting was to brief on the damage survey we had conducted and how we planned to repair the two damaged aircraft plus conducting a PAR MOD program on the entire AURI C-130 fleet. During this meeting asked if Dasaad was still Lockheed's agent in Indonesia and would he be paid a commission on the PAR MOD program. Ridings' response to 's question was - Yes, Lockheed has an agency agreement with Dasaad and in fairness to Dasaad must say that he has been a satisfactory agent for Lockheed. As for Dasaad being paid a commission on the PAR MOD program - No, since he did not have a product letter for this type of work. advised Ridings that he had been instructed by his superiors, that the AURI was not to contract with any company where a commission would be paid to an individual Indonesian. That, the AURI was to select an Indonesian company to represent them as agents and any commissions paid were to be paid to this company. stated that the AURI had selected the company to represent AURI and any commission paid on the PAR MOD program was to be paid to this company. At this point Ridings stated that Lockheed did not pay a commission to anyone on a PAR MOD program as this type program was repair of aircraft already sold. then stated that if it was possible, the AURI wanted Lockheed to pay a commission of 3% on the PAR MOD program and it was to be paid to the company. Ridings advised that he did not have the authority to commit Lockheed to such an agreement but that upon his return to Marietta, would report this meeting to his management for their decision. (The company is located at Djalan Garuda No. 25, Djakarta. It is a government-owned company and was formed to handle the Fokker manufacturing program that was to take place in Djakarta. The Managing Director is , AURI, who was

After the above related meeting with , Ridings met with Dasaad Sr., advising him of the meeting and what had been discussed. Dasaad stated that he did not understand this position that was being taken by the AURI as he had always been able to work with the AURI. Dasaad Sr. instructed Ike to check into this, find out what was wrong and straighten it out.

During this visit in Djakarta some discreet inquiries were made regarding Dasaad's position with the new regime in Government. Most replies were that it was too early to tell but, Dasaad had most likely kept his fences mended on both sides. In order to try and obtain a more definite answer to this question, Ridings met with Colonel Slade, USAF Air Attache, and inquired if the U.S. Embassy had any means of checking out and evaluating Dasaad's position with the new government. Slade stated that he could have the Embassy C.I.A. personnel check this out and would give a report back as soon as possible. Prior to Ridings departing Djakarta, Slade reported twice on the progress being made, regarding the check on Dasaad. The first report was that their preliminary findings were, Dasaad was "in" with the new government. The second report was "Dasaad was definitely well connected with the Suharto regime". Subsequent to Ridings' return to Marietta a report was received from Slade, via our Field Service Representative stationed in Djakarta, complete contradicting the previous two reports, stating that Dasaad was "out" with the Suharto regime. These contradicting reports created doubts as to the U.S. Embassy's ability to really dominate the question.

Ridings reported to Morrow and Wilkerson about the meeting with _____ and their desire to have a commission paid on the PAR MOD program. The decision was made to cover ourselves when pricing the program in case we should have to pay the commission fee, and that in our next meeting with AURI we would not introduce this subject.

In February 1967 Hausman met Ridings in Djakarta with the definitive contract for the PAR MOD program. Contract negotiations were started immediately and successfully concluded on February 18th with Air Vice Marshal Sukirno signing the contract for 5.3 million dollars. During contract negotiations with the AURI no mention was ever made about paying a commission. After the contract was signed Ridings and Hausman met with Air Marshal Rusmin to brief him on the contract and definitized program. Prior to entering this meeting it was decided that upon conclusion of our briefing to Rusmin we would inquire if we had covered all subjects he wished to discuss regarding the PAR program. We felt that we should settle, one way or the other, the question of any commission being paid and this approach might bring up the subject. At the conclusion of our briefing and stating of our prior agreed upon question Rusmin's response was that we had covered all subjects that he had any questions about and if he had any questions in the future he would contact us through Colonel Sukardi. Subsequent to this meeting with Rusmin, Ridings and Hausman met with Colonel Sukardi regarding ECP's etc. that were to be included in the PAR program. At the conclusion of this meeting with Sukardi we inquired if we had covered all subjects that the AURI wished to discuss and Sukardi responded that we had.

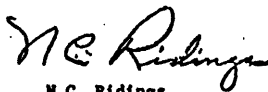
At the present time the AURI PAR program is well underway and the subject of paying a commission, to the previously AURI designated company, has never been mentioned.

Since Dasaad Sr. was made aware of the AURI's original position of requesting Lockheed pay a commission to their designated company and AURI's subsequently complete silence on this subject leads me to believe that Dasaad influenced this change of AURI position.

In May 1967, Ridings was back in Djakarta. A call on Dasaad Sr. at his office found him in his usually good spirits. One change in the decor of Das's office was noticed and that is a big picture of General Suharto now occupies the place where Sukarno's picture used to be. Das Sr. has taken over management of the large government-owned department store, Sirena. I understand that General Suharto asked Das Sr. to take over management of the store and get it on a paying basis. Das made his usual inquiries as to how was business for Lockheed but made no mention of the current PAR program. At this time Ike was preparing for a trip to the U.S. and was going to Toledo, Ohio to Willy regarding jeeps for the Indonesian Army. Ike stated that he planned a visit to Marietta but this did not materialize. Ike did call Hausman from New York.

During this visit to Djakarta, additional information was received regarding Dasaad Senior and his connections with the present government. One report came from an Army General and the other from an independent business man whom I consider to be well informed on who is who in Djakarta. Both reports were pretty much the same: (1) It is well known in Djakarta and by members of the Suharto government that Dasaad Senior was very close to Sukarno but, Dasaad never became a Sukarno politician, such as a Minister, etc. During Dasaad's association with Sukarno he was known as the one man who would plead the cases of dissatisfaction some of the

businessmen of Indonesia had with the Sukarno government and in many instances Dasaad is remembered as having been successful with Sukarno; (2) Dasaad is remembered for his speeches to the Presidium, during Sukarno's regime, about policies the government should adopt in order to improve economic conditions in Indonesia. The policies advocated by Dasaad in these speeches were in direct conflict with Sukarno's policies; (3) Dasaad is well connected with the present Indonesian Government and is still the leading businessman in Djakarta.



H.C. Ridings

NCR:ewb

TO D. D. Stone

REF ID: A3-01 BLDG. G1 PLANT A-1 DATE April 1, 1968

C68096

FROM W. J. Broderick

DEPT.

BLDG.

PLANT LAUSANT.


SUBJECT: AGENCY AGREEMENT - INDONESIA

Dear Don,

Reviewing my correspondence generated since our return, I find I am remiss in not expressing opinions about our agency agreement in Indonesia. The best info I could find in Djakarta, on a confidential basis, was with the U.S. Embassy who have been very close to the overall problems of doing business with Indonesia.

I learned that, and you probably already know this, Dasaad has split their business between Abe, Ike and the other son. Charles Jackson, our field service rep there, explained to me that this was done for tax purposes and the Economic Counsellor, Paul McKusker, intimated that there was some political considerations behind it. He summarised it by saying that Ike was okay and apparently in good graces with the present government. The government however seems to be ignoring Abe and sort of treating him like he is in limbo.

I had hoped to have further discussions with Major-General Kosasth, who was the Indonesian Ambassador here in Australia and very close to the political situation at home, but he received a re-assignment during my absence. His full time remaining here was occupied by social functions and travelling, leaving me unable to get with him for private discussions. Perhaps when I become acquainted with the new Ambassador, who I understand is a Lieutenant-General, I will be able to obtain additional information.

Best regards,

 W. J. Broderick

INTERDEPARTMENTAL COMMUNICATION

TO W. G. Nyers

DEPT/
OACH.BICO/
ZONEPLANT/
TAC.

DATE 5/7/68

Chas. Mc
att 5/12

FROM D. D. Stone

DEPT/
OACH.BICO/
ZONEPLANT/
TAC.

EXT.

SUBJECT: TERMINATION OF DASAAD (INDESCO RAYA), INDONESIA

GELAC has suggested we start action to terminate our agreement with Indesco Raya, Indonesia, formerly Dasaad Musin Company. Information indicates that the Dasaad's are completely without influence in Indonesia as result of the change of government two years ago. It is GELAC's opinion that although the Dasaad's are not standing in line to be liquidated, their usefulness is at an end because Suharto is determined to economize to the greatest possible extent and looks with extreme disfavor on inclusion of commissions in any future procurements. GELAC has been forced to confirm to General Rasmussen, present Air Force Chief of Staff, that we are not paying commissions to anybody on the present GELAC C-130 PAR Mod Program. For these reasons, GELAC feels the present Indesco Raya agreement can become an increasingly embarrassing document as time goes by.

Erle Constable also feels the Dasaad's no longer have influence with the government and furthermore believes there is a similar loss of influence with Garuda. Erle advises that Garuda has recently completed a technical assistance pact with KLM -- Garuda even picked up some surplus DC-8's KLM had on order but decided it didn't need. He feels that should Garuda need 1011 type airplanes it will buy whatever KLM buys due to this very close arrangement.

Unless you, Bob Mitchell, Mr. Kotchian, or Mr. Haughton have objections to terminating Dasaad, I recommend we do so on the basis of GELAC's and Erle's inputs. Will you let me know what your thinking is? I have not consulted any other top management people but will do so if you wish.

DDS:mlg

D. D. Stone
D. D. Stone

to Roger Williams
by request

5/14 Discussed w/ Pres. Staff. 5/14.
With all probability, Pres. Staff will
feel we should do so and would like
from DASA and 1/12.
Chas. Mc

CHABLE ADDRESS: LOCKHEED GENEVA

TELEPHONE: (022) 24 32 77
TELEX: 22239

LOCKHEED AIRCRAFT INTERNATIONAL A.G.

PLACE LONGEMALLE 1
1204 GENEVA, SWITZERLAND

19 July 1968

To: Eric M. Constable

From: C. Fred C. Neuser

INDONESIA AGENT

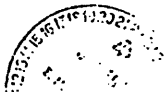
Recently I noticed in a communication from the office of VP-Sales CORLAC reflecting the status of the Corporation's Agents, that some Divisions seem to wish to terminate the services of Dassaad, at least not to renew his contract. You know that I have been pressing to appoint Sundjaja and his group, because of their excellent top-of-the-top contacts in Indonesia after the ousting of Sukarno. Just the other day in Amsterdam discussing the matter with Sundjaja, he stated that obviously he would be highly pleased should he be appointed in Dassaad's stead, however he felt it would not now be in the best interests of Lockheed to do so. On my enquiry as to how he came to this surprising conclusion which seemed to be against his own interests, he stated the following:

Dassaad is closely related to General Alamsjah, who is disliked by the military as an office general and a businessman above all. When the coup was made during which Suharto replaced Sukarno, Alamsjah, who controlled certain considerable funds, at once made these available to Suharto, which obviously earned him the gratitude of the new President. In due course he was appointed to a position of trust and confidence and today Alamsjah is, one might say, the second important man after the President and in charge of all projects, including the airport project of Djakarta, which the DGCA Ashadi will have to submit to him for final approval. The refuelling contract which you in LAI desire to obtain as a concession in part to compensate LAI for the Djakarta airport project, will also have to be approved by Alamsjah in the final analysis and it is not part of the domain of the DGCA Ashadi. It might conceivably be pushed by Dassaad at the office of Alamsjah.

I guess you wish to draw attention of those concerned to this situation and Sundjaja states that he will advise me when the importance of Alamsjah will decline, whereupon he will be happy to be a candidate to replace Dassaad as Lockheed's Agent in Indonesia.

Best regards,

C. Fred C. Neuser



LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

Betty

TO Betty Donatelli/CORLAG-

DEPT.

ZONE

DATE 12 September 1966

FROM G. Ben Methvin, Jr.

DEPT. 69-51 ZONE 11 EXT. 2341

SUBJECT: DELIVERY OF NOTICES TERMINATING INDESCO RAYA AND DASAAD AGREEMENTS

As requested in your IDC of 30 July (same subject) I delivered the three notices terminating the CORLAG, LAI and LAIAG agreements with Indesco Raya and Dasaad Musin.

The notices were given Mr. Isaac Dasaad, Sr. on 30 August 1968 in Djakarta, and in the presence of Mr. C.H. Jackson, Lockheed-Georgia Company Field Service Representative. Previous attempts to contact young Ike were futile since he was at a beach resort in Southern Java and would not or could not answer our calls.

The meetings with Mr. Dasaad were business like with no evidence of animosity on his part. He agreed to deliver the papers to Ike the following week and signed the enclosed notice in his behalf.

I trust these arrangements are satisfactory for your purposes.

Ben Methvin
G. Ben Methvin, Jr.

GBH:ewb

cc: D.W. Cederberg
W.W. Cowden
C.E. Eaton

B.L. Dark/LAI - Los Angeles

*Copies filed in Vault in Indesco
Raya and Dasaad folders.*

Addressed to

DATE

☐ FOR A

☐ PIPLY

☐ TOLU

☐ PIP

☐ SIGN

☐ CCM

☐ ITO

☐ INVS

☐ FOR

☐ INTCN

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☐ AND

☐ PLEAS

☐ FOLLC

ON

RE-ROUTING
INSTRUCTIONS
FOLLOW US

RELAYED FROM DJAKARTA, INDONESIA
29 January - 1720 hours

LOCKHEED AIRCRAFT CORPORATION
MARIETTA, GEORGIA, U. S. A.

COPY OF
INCOMING TELEGRAM

Date of cable: 1/29

To: CEDERBERG
MALOCHERED
MARIETTA, GEORGIA

0129A...

STILL UNABLE SEE (*) AS AURI ATMOSPHERE CHARGED AND CLOUDED POSSIBLY
DUE RECENT HARD ULTIMATUM BY NAAG AND U.S. EMBASSY REGARDING CLEANUP AND
CONSOLIDATION OF AURI MULTIPLE TYPES AND STANDARDS BEFORE FURTHER GRANT AID
FORTHCOMING. C-130 MAY BE AUSTERITY CASUALTY AND RELUCTANT INFORM US.
CAMPING ON 'S DOORSTEP UNTIL CLARIFICATION MEETING.

WILL LIKELY HOLD FIFTEEN DAY EXTENTION ON PROPOSAL AND.....to obtain.....FEEL
FOR PERCENTAGE "ORPHANS' FUND" (***) POSSIBLE.

NEW SUBJECT...MET STANVAC AND WORLD AVIATION SERVICES PRINCIPALS WHO NEED SEVERAL
MONTHS BEFORE HERCULES REALISTICALLY CONSIDERED. WILL FOLLOWUP WITH WORLD
AVIATION SERVICES IN STATES.....END.....

(s) BETHVIN

(*)

AURI

(**) Agent's "commission" or
Gelac contribution to AURI
welfare fund.

D. T. CROCKETT

Dist. to:

J.H. Clarke
W.H. Cowden
D.T. Crockett, Jr.
F.L. Robbins
E.B. Pinkerton
H.C. Biddings
H.D. Roche

JAN 30 1969

MEMO FOR FILE

March 26, 1969

SUBJECT: IZAAC DASAAD

Izaac Dasaad called me about 11:00 a.m. on Tuesday, 25 March, to say "hello" and, as he put it, to "touch base with Lockheed." During the conversation, he complained that he had not received his commission on the C-130 PAR Mod Program conducted by GELAC after the deposing of General Sukarno. He said the amount of the contract came to \$7.5 million, and his agreement with Lockheed called for a commission of 5%. The contract was completed more than a year ago.

In addition to the above, he remarked to the effect that Lockheed Georgia people had gone to Indonesia during the process of signing the PAR Mod contract and made "promises" to various Indonesian Air Force officers. Even though these officers know that Dasaad is no longer working for Lockheed they continually ask him for fulfillment of these "promises". I could not reach a determination as to whether the "promises" were to come from Dasaad's claimed commission or whether they were in addition to Dasaad's claim.

I referred Dasaad to Dallas Cederberg and Charlie Valentine in GELAC. I further told him I know nothing about any oral arrangements that might have been made by Georgia personnel and that I felt GELAC would have firsthand knowledge as to whether or not Dasaad would be entitled to the commission and also knowledge of any other arrangements.

Subsequently, I talked to Charlie Valentine who had just hung up the phone after talking to Dasaad. Charlie was not conversant with the situation since the PAR Mod Program was arranged before he relieved Eddie Hausman. I gave Charlie some of the background, as I knew it, and we discussed the terms of Dasaad's then current agreement (cancelled in September 1968) which did not include a "call out" for the PAR Mod Program. Charlie did say that during their conversation, Dasaad backed off his claim for commission on the full program and limited his requirement to the spare parts sold during the process of the PAR Mod Program. This lowered the claim from the \$7.5 million he discussed with me to about \$2.5 million of spare parts at 5%, or \$125,000.

This morning, Wednesday, 26 March, I alerted John Cavanagh, Corporate Legal, to the situation after receiving a call from Dasaad, who is in Los Angeles, asking to see me to discuss the situation. I told Dasaad it was a GELAC problem and there was nothing I could do in the premises. He persisted that he wanted to explain his position and show me his documentation. I finally agreed to see him at 2:30 this afternoon for what I am sure will be a completely fruitless discussion.

MEMO FOR FILE

March 27, 1969

SUBJECT: IZAAC DASAAD

Met with Ike Dasaad and his uncle, Mr. Richard Lonzo, the afternoon of March 26, 1979. Betty Donatelli also sat in the meeting. Dasaad strongly emphasized his contention that the PAR Mod Program conducted by the Georgia Company in 1966 and 1967 (following the coup) was but a continuation of the program on which he, Dasaad, held an agreement in 1964. He stated the money was the same money that had been set aside under the Sukarno regime and therefore our termination of his specific agreement and the substitution of another agreement with his new company, Indesco Raya, did not alter his entitlement for commissions under the 1964 agreement. He, of course, went back over all of the old arrangements he had had with Lockheed and stressed their fine work, and the fact that he and his father had always benefitted Lockheed, at which point I reminded him that he had also benefitted himself.

My position was that I had no basis on which to confirm or deny that the 1964 overhaul program was the same program as was carried out in 1966. The airplanes may have been the same, but there was no indication to me that the '66 program was an outgrowth of the early efforts. Ike demurred when I asked him to identify the amount and people who may be involved in his financial exposure, so I didn't press the matter. The atmosphere of the meeting was very pleasant and I wound it up by suggesting that he go to the Georgia Company, lay his cards on the table, listen to what they had to say, and assured him that if he really was entitled to the money, the Georgia Company would be the first to pay him. If the lack of payment was merely an oversight by the

Georgia Company, it would be corrected. On the other hand, I was not in a position to judge the merits of his case, although I agreed that he had performed very well for Lockheed over the past several years.

Subsequent to Dasaad's discussion, I talked to Charlie Valentine who told me that the Georgia position is that the 1966 PAR Mod Program bears no relationship to the 1964 program. The airplanes are the same but the operation was entirely different from the concept worked out in 1964. They also, at present, feel even though Dasaad's then current agreement called for commission on spare parts the spare parts used in the 1966 program were not the type of parts normally considered under the kind of agreement Ike had in 1966. On the other hand, in view of possible future sales, and in view of country relationships, it may be expedient for GELAC to make a "policy" settlement of some kind. This is currently being discussed, but no decision reached as yet.

My personal feeling being somewhat aside from the issue is that we will have difficulty convincing a layman judge, if Ike decides to take the matter to court, that the programs are indeed separate and that Ike's efforts in 1964 had no bearing on the ¹⁹⁶⁶1966 contract. Literally, Ike has no claim on paper because the 1964 overhaul agreement was a one-shot arrangement terminated well in advance of the 1966 program (September 1965). Nonetheless, in spite of the fact that "no orders were received and confirmed" prior to cancellation, a court might feel there was a latent responsibility if a definite connection can be established between the two programs. On the other hand, I believe we should make some kind of arrangement to supply the "golf clubs" which were apparently involved with different Indonesian Air Force people in order to preserve our reputation with the Indonesian Air Force in the light of possible future programs.

D. D. Stone

C-130B PROPOSITION TO INDONESIA *File 82*

C-130B in "ferry flight" condition - FAF Marietta..... \$ 1,650,000.
 "AURI fleet compatibility" avionics changes..... 150,000.

FAF Marietta cost to AURI..... \$ 1,800,000.

Gelac expenses:

Commission @ 12½%..... \$225,000.
 Preparation for ferry flight..... 125,000
 Gelac cost to change avionics..... 100,000
 \$ 450,000.
 C-130B proceeds less expenses..... \$ 1,350,000.
 Profit on JetStar 5011 tradein..... 50,000.
 Total net proceeds to Gelac \$ 1,400,000.

Terms:

JetStar 5011 (in flying condition) FAF Djakarta
 as down payment on C-130B..... \$ 650,000.

(9% interest on unpaid balance; promissory notes to
 Lockheed secured by Indonesian Central Bank
 guarantee)

		Principal	Interest	Note
1st payment, on or before	30 June 1970	\$ 250,000		
2nd payment, on or before	31 Dec 1970	250,000		
3rd " " " "	30 June 1971	250,000		
4th " " " "	31 Dec 1971	250,000		
5th " " " "	30 June 1972	150,000		
		<u>\$1,150,000</u>		

Conditions:

1. AURI will release JetStar 5011 upon contract execution on or before 30 June 1969.
2. C-130B will be delivered to AURI, FAF Marietta, on or before 30 September including avionics changes.
3. Commission will be paid immediately upon title transfer of JetStar to Gelac.
4. Jon Ashton (Minneapolis broker) will open LC for \$700,000 in Gelac's favor for JetStar 5011 prior to Gelac executing C-130B contract with AURI. Ashton is offering \$700,000 delivered to Baltimore plus fuel costs from Djakarta - but believe he will pick up entire JetStar ferry cost if we "dicker."
5. If AURI desires, Lockheed will ferry C-130B to Djakarta for \$30,000. (We offered to ferry it to Ashton for \$20,000)

LOCKHEED WESTERN EXPORT COMPANY

PER, AUSTRALIA
 Lockheed office telex relay)

2 June 1969

COPY OF
 INCOMING TELEGRAM

To: CEDERBERG
 HARIETTA

Date 6/2/69

MRO2A....PRESENTLY MELBOURNE WITH NICOLL. PLAN CAUDERRA TUESDAY AFTERNOON AND ALL DAY WEDNESDAY WITH BRODERICK. RICHMOND THURSDAY WITH POSTIER AND BRISBANE FRIDAY IF HIGGINSON AVAILABLE.

NEW SUBJECT...REGARDING DJAKARTA VISIT. STRONG RUMOR DJAKARTA, WHICH SUHARSONO VERIFIED, IS WILL BE REPLACED NEAR FUTURE. UNABLE ASCERTAIN REPLACEMENT'S NAME BUT EXPECT TO BE ONE OF THE (*) WHO ACCOMPANIED HIM DURING RECENT UNITED STATES USAF SPONSORED TOUR.

LENGTHY MEETING WITH LAST FRIDAY WHERE HE PROPOSED PURCHASE USED C-130B WITH JETSTAR 5011 CONSTITUTING DOWN PAYMENT. 'S EAGERNESS TO KNOW HOW LONG IT WOULD BE BEFORE I COULD ADVISE HIM IF WE WILLING DO THIS DEAL TENDED VERIFY RUMOR REGARDING REPLACEMENT. MY OPINION DESPERATE CLOSE SOME DEAL BEFORE LEAVING OFFICE WHERE SIZEABLE COMMISSION IS AVAILABLE. THIS MAY BE GOOD CHANCE SELL C-130B IF WE WILLING TAKE JETSTAR.

DURING MEETING WITH , COLONEL AND PRESENT AND, AFTER DISCUSSING JETSTAR/USED C-130B, BROUGHT UP SUBJECT OF PAR-MOD COMMISSION, MAINTAINING IT WAS DISCUSSED WITH US THEREFORE HE EXPECTED PAYMENT. I MAINTAINED WE NEVER AGREED AND NO PROVISIONS FOR SUCH INCLUDED PROGRAM PRICE. WITH STATING WE HAD AGREED THIS ARRANGEMENT AND MY DENIAL ANY SUCH AGREEMENT THE DISCUSSION BECAME SOMEWHAT HEATED. MY PARTING STATEMENT: 'WE REGRET THE LACK OF COMMUNICATION AND UNDERSTANDING THAT HAS OCCURRED BUT DO NOT KNOW OF ANYTHING THAT CAN BE DONE'. 'S PARTING REMARK WAS: "I EXPECT TO BE PAID".

LOCKHEED WESTERN EXPORT COMPANY

COPY OF
INCOMING TELEGRAM

To:

-PAGE TWO-

Date 6/2/69

NR02A....(continued)

HAS HAD INDIRECT CONTACT WITH DASAAD RELATING HE EXPECTED \$210,000. IKE STATES HE HAS NO INTENTION PAY SINCE HE ON HIS WAY OUT BUT WILL TAKE CARE OF OTHERS. IT APPEARS THIS MATTER NOT YET SETTLED AND OUR SALVATION MAY BE BEING REPLACED.

(e) RIDINGS

Copies to:

W.W. Cowden/J.A. Morris
D.T. Crockett, Jr.
C.C. Laubacher
R.D. Rocha/P.F. Dobbins
C.H. Valentine

(*) Note by D.W. Cederberg:

The two officers who accompanied during his U.S. visit in April were:

1)

2)

34

447
051 42

REF. 93-01 ZONE 32 DATE 5 June 1969

LOCKHEED PAPER: DATA

DEPT. 69-51 ZONE 11 EXT. 2341

SUBJECT: TELEPHON WITH RED RIDINGS REGARDING INDONESIAN SITUATION

The attached cable was received from Ned early this morning, and I immediately telephoned him at the Chevron Hotel in Sydney, Australia, to discuss the Indonesian situation. (9:45 AM, Thursday our time; 10:45 PM, Thursday, Sydney time.)

I reviewed with Ned the "C-1303 Proposition to Indonesia" which Joe Morris and I discussed with you Tuesday afternoon. Ned felt that it contained all the elements that would appeal to _____, although increasing the C-1303 price to \$1.6 million might need some explaining. He thinks that our offer of \$550,000 for the Jutstar might be accepted in light of the commission _____ would be making on the whole deal. When he was in Djakarta last week, Ned asked _____ if he understood that the amount of commission paid could effect the prices in the sale. _____ laughed and said he understood that very well!

Had reiterated there is little doubt that [redacted] is desperately anxious to make a "killing" before he leaves office this Summer. Had told him that there was around \$39,000 residue here at Gilas from other programs which we would pay wherever and to wherever [redacted] directed. [redacted] said that he "wasn't interested in chicken-feed -- and would probably have it sent to the [redacted] or somebody later on..." Had feels that \$225,650 would be getting into the range [redacted] has in mind.

Ned said that the Par-Ned commission discussion in 's office last week was a real stormy session - the worst he has ever had with any Indonesian, with the exception of listening to Rika Basad's usual tantrums! (Ned will give us a blow-by-blow replay when he gets home.) The evidently is flatly refusing to pay anything - on the grounds that it is "lame duck" these days and that he (The) is taking good care of the higher-ups that mean something for the future. Ned figures that someday we may have to write AURI a letter, over a senior Gales official's signature, telling AURI in flat, plain English that we do not owe AURI commission on the Par-Ned program and we do not intend to pay off simply because AURI thinks we should. In spite of the Par-Ned misunderstanding, Ned feels that would unilaterally move on the C-1000 deal simply because he is getting close to leaving office and desperately wants a "retirement fund".

I asked Ned if he felt it would move things along faster if he went straight back to Djakarta after finishing up his business in New Zealand next week. Ned said that this was up to us to decide - but he personally felt that it would be better for him to come back to the plant for detailed strategy discussions first - and to have firm written proposals and contracts in his briefcase when he goes back to Djakarta. He also believes that if the Jettison trade-in is going to be part of the deal - which it may be under present circumstances - we should do this with Charles' team.

100 -
Cederberg to Crockett

5 June 1966
-Page Two

- that it's back on flying status. He believes that this is at least three weeks or a month away. The airplane appears to be in good shape, but it's been grounded for many, many months and it might develop into a few "hiccups" on the first flight. (I told Ned that, right now, we were only interested in a back-to-back deal on the JetStar - and that our prospective buyer would not make a firm decision until his man has gone to Djakarta and test flies it.)

Ned expressed concern that we will have to be careful, if we get to a contract-signing stage with _____, that we don't end up with paper that might later be abrogated by _____'s superiors. _____ would undoubtedly sign anything that would give him a quick bundle, and let the devil take the hindmost. He most certainly would not accept promissory notes for the balance of the C-130 sale simply over _____'s signature as _____. How difficult it might be to get the notes formally endorsed by the Indonesian Central Bank is something we can't determine until we go back to Djakarta with firm written proposals. (In all the years we've been dealing in Indonesia, we've never had the Central Bank renege on their commitments although they've sometimes been slow in making payments.)

Ned brought up another interesting wrinkle, out of his discussions with _____ last week. Apparently President Suharto recently reversed approval to let other Indonesian Government offices use AUMI JetStars for transportation if they reimbursed AUMI for operating costs. _____ gave Ned the impression that AUMI may again be under pressure to sell S-11, but _____ doesn't want to sell it for cash because there would be very little in the sale for his own pockets. _____ evidently told the President that he thought he could still trade in S-11 to Lockheed for the C-130 but he would need additional dollars because the JetStar would cover only part of the purchase price.

_____ hinted to Ned that the President might become receptive to allocating special dollar funds for the balance on the C-130 which would mean Lockheed could collect the balance in cash against a Letter of Credit. Ned feels that this is an extremely long shot but, nevertheless, we should have a proposal and contract covering this line of transaction, as well as one with extended credit terms. (_____ naturally, would expect an even bigger chunk of commission if he could arrange an L.C. for the balance.)

In summary, Ned believes that the door is wide open for us to go back to _____ with a firm deal that includes taking JetStar S-11 in trade. In spite of _____'s present greedy frame of mind, Ned suggests that final negotiations could not be concluded overnight - and it might take numerous days to obtain recognition from the Central Bank and the Ministry of Defense to safeguard our contract against abrogation. He adamantly feels that the climate for more talking has passed; and that next time we go to Djakarta it should be with written proposals and definitive contracts for "take it, or leave it" negotiations.

Ned intends to be back at his desk on the morning of June 16. Meanwhile he advises against cabling or writing to Charlie Murphy with any "try this on _____ for size" propositions. Cable communications are terrible, he says, and letters are frequently censored. (He also believes that some of our Lockheed code words may be compromised.)

McClellan
cc: P.H. Couden
R.C. Mieling

D. W. Cederberg
D. W. Cederberg

LOCKHEED AIRCRAFT CORPORATION
 MARIETTA, GEORGIA, U. S. A.

From Lockheed/Camden office
 on 5 June 1959

COPY OF
 INCOMING TELEGRAM

Date 5 June 1959

Y: CONCERNING

HEROSA....REUR DROGA....DURING JETSTAR DISCUSSION WITH NO REPEAT NO AIRCRAFT
 MENTIONED AS POSSIBLE TRADE-IN VALUE WE WOULD ALLOW. JETSTAR PRESENTLY HAS ONLY
 THREE ENGINES INSTALLED. FOURTH ENGINE WILL BE INSTALLED SOON AS THE THREE ENGINES
 ARRIVE THAT ARE PRESENTLY EN ROUTE FROM U.S. UNDERSTAND AIRCRAFT HAS NOT FLOWN
 QUITE SOME TIME BUT WHILE VISITING JETSTAR HANGAR MAINT WORK IN PROGRESS PUT AIRCRAFT
 IN COMMISSION. MURPHY MAILING ME UP TO DATE COPY SERVICE BULLETIN RECORD PLUS
 ENGINE SERIAL NUMBERS AND TIMES PLUS AIRFRAME TIME AND INTERIOR EXTERIOR
 PHOTOGRAPHS.

AGREED TO ALLOWING PROFESSIONAL PHOTOGRAPHER ACCESS TO AIRPLANE. AS TO
 PROPOSITION THAT WOULD HAVE TO QUICK DECISION, HAVE NO SPECIFIC FIGURES
 TO SUGGEST BUT SAFE LET LARGER THE COMMISSION QUICKER THE DECISION.

WILL PROBABLY CONTINUE HOLD OVER OUR HEADS THE QUESTION OF PERIOD
 COMMISSION BUT IF OUR JETSTAR C-130B PROPOSITION GENEROUSLY BENEFITS HIM
 PERSONALLY HE WOULD PROBABLY PROCEED.

NEW SUBJECT - CAMDEN VISIT DID NOT REVEAL ANY DEVELOPMENT REGARDING OUR PROPOSALS
 NOT ALREADY REPORTED BY BRODERICK....

REGARDS.....

(c) RIDINGS

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

UNCLASSIFIED PRIVATE DATA 0.6.1974

TO John P. Johnston, Jr.

DEPT. 81-63 ZONE 502 DATE February 13, 1959

FROM H. C. Ridings

DEPT. 69-51 ZONE 11 EXT. 2341

SUBJECT: CONTINGENT LIABILITY FUND FOR INDONESIA AIR FORCE

As you are probably aware, we have just successfully concluded negotiations on Contract CLX-199 with the Indonesian Air Force (AURI) for replacement of the wing corner fittings in their C-123B aircraft. Total funding in this contract is \$300,000.

AURI Letter of Credit No. 0105/0271 appertaining to Contract CLX-199 is to be amended and funded to cover the requirements of Contract CLX-199.

As a necessary part of doing business with the AURI, we had to sign an agreement to repay five percent of the total amount of Contract CLX-199, or \$15,000, to the AURI. Payment is to be made at a time and to the place to be specified by the AURI. A copy of this agreement is enclosed for your information. The \$15,000 to be repaid has been obtained by increasing CLX-199, Article 2 Item (a) (1) from \$41,000 to \$43,000 and Item (a) (3) from \$20,000 to \$22,000. The total amount listed under Article 4, Item (c) has been increased from \$225,000 to \$300,000. The first two items above have been increased above the quotas provided by Finance for the same two items under HQ 69-006 dated 23 December 1959.

As soon as initial funds are drawn against Contract CLX-199/L.C. No. 0105/0271, \$15,000 should be placed in escrow to be paid to the AURI on demand. Either P.S. McKinney of my department, or myself, will advise you when payment is to be made, since the AURI will contact us directly in this regard.

I want to advise further, that this will be the "lay of life" in any future business dealings with the AURI. We will have to refund five percent, "off the top", of any new programs contracted for by the AURI.

Returning to Contract CLX-199; it is not spelled out in the contract, but we have a verbal agreement to credit the AURI with any portion of the month remaining after our team finishes the job in Djakarta. In other words, we draw \$25,000 per month, in advance, for every full month the team is on the job. If the job is completed prior to the end of a given month, we are verbally obligated to refund a pro rata share to cover the remaining period not worked. I will certainly appreciate your instructing your people in this regard. We now have our "kisses pretty well needed" with the AURI and we don't want to do anything to disturb this happy state of affairs.

EST - 01 02

Your cooperation in all these matters will be most appreciated.

H. C. Ridings

HCP: cub
cc: J.H. Gordon
J.H. G. Gerstein
D.H. Gresham, Jr.
J.L. H. H. H.
J.H. H. H.
J.H. H. H.
J.H. H. H.
J.H. H. H.

RECEIVED

FEB 19 1959

W.W. COWDER

8 October 1970

MEMO TO C. T. CHILDS

Bill Hillburn requested the attached be given to you for filing in the general Indonesian files.

A telephone conversation with Earl Rainwater yesterday revealed the following concerning this correspondence. This does not deal with agents commission in the true sense of the word. The person " " in Tom Kelly's memo is a Colonel in the Indonesian Air Force. The "DLG" mentioned in the third paragraph of Kelly's memo is a U. S. Government organization in Indonesia similar to a "MAG" in other foreign countries. According to Earl the U. S. Government has been supplying Indonesia with spares for free and, therefore, we have not been able to sell them any spare parts recently. Now they apparently have made an arrangement whereby if we give them a commission which supposedly goes to some "benefit fund", they will buy certain spare parts from Lockheed. As the correspondence indicates we are willing to pay a five percent (5%) commission to obtain additional spares business.

There is nothing for Contracts to do and this is for information purposes only. Finance is aware of this arrangement, is agreeable to it, and apparently knows how to make the commission payments. As noted in Earl's IDC they are trying to work out some bank arrangement for future payments.



P. L. Martin

PLM:sh

Attachment

THE GEORGIA COMPANY
DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO: W. H. Edwards
W. S. Hilburn
N. C. Ridings

DEPT. 65-12
82-21
69-51

ZONE 287
24
3

DATE 2 October 1970

FROM: E. E. Rainwater

DEPT. 64-21 ZONE 279 EXT. 42788

SUBJECT: AGENTS COMMISSION - INDOONESIAN SALES

In a telephone conversation with C. A. Murphy and by written communication from Tom Kelly (attached), we are advised that a five percent commission is to be paid on all future sales to Indonesia, including services. All future pricing, therefore, should include an extra five percent markup for this purpose.

You will recall that a five percent commission was paid on the sale of the wing corner fitting modification which was recently completed by a Gelac team in Indonesia. Payment was made by check and the principals have to date been unable to cash the check in a manner considered "safe" by the principals. To resolve the matter, Murphy is taking cash to Indonesia next week and will cash the check himself. He has been requested while there to work out an arrangement with the principals for commission payments in the future. This will probably be arranged by the principals establishing a bank account of their choice to which we can simply make deposits to their account.

Murphy and Kelly have been advised that we are agreeable to paying the five percent commission and anticipate that the \$170,000 for JetStar spares will be released when the principals are notified.

M. L. McDaniel
E. E. Rainwater, Manager
C-130/Hercules
Field Service Department

EER:jb



LOGISTIC SUPPORT RESERVED DATA

September 1970

Dear Earl

While talking to Saturday about the check problem, he suddenly asked if I knew the Easaards. With that question I knew what course the conversation was going to take and if you were connected with the Indonesian program in the early Sixties you already know the reason for this letter. Easaard was Lockheed's agent at that time and in that capacity received a commission on all sales to the AURI.

stated that since they are now dealing directly with Lockheed, he feels that a five percent commission on all future sales should go what he described as an AURI benefit fund. He then gave a number of reasons why the money is needed and how it would be spent, and concluded by stating that some arrangements must be made because there are people at Headquarters who suspect that he is receiving a rebate from Lockheed.

Earl, I do not know how these things are handled but do hope that something can be worked out so that Lockheed can get back in the spares business. LEO is promising these people the sun and delivering it with extras. They have given the AURI C-130 program approximately 150,000 Dollars worth of spares and equipment so far and recently another 50,000 Dollars was made available for the program. It is difficult for the AURI to obtain funds from the Department of Defense and Security so when LEO comes along and offers everything for nothing, you know what they are going to do. The only way we can fight this competition is to offer a commission or rebate.

After I told that I would write to see what could be done, he told me about the 170,000 Dollars that is being released for JetStar parts (TW/254 to Edwards 21 Sept.). After a few minutes on JetStar problems and a little more talk on the check problem, the conversation came to a close. As I was leaving he said he wanted to know about the commission before any action is taken on the JetStar parts.

Would appreciate you letting me know as soon as possible what arrangement can be made.

Tom Kelly

LOGISTIC SUPPORT RESERVED DATA



LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO	Erle A. Constable	DEPT.	ZONE	DATE March 9, 1971
FROM	D. T. Crockett, Jr.	DEPT. 93-20	ZONE 32	EXT. 3145
SUBJECT	INDONESIAN SPARES			

Gelac is in a very awkward position with our Indonesian customers because of the uncontrolled activities of Aviquipa. You will recall our discussion on this subject several months ago prompted your letter to Aviquipa management, but the letter was out of the barn and we continue to be squeezed by the AUKI for 10% commission on spares.

From day one, we have paid 5% on spares sales to Indonesia and we are not about to change. Until Aviquipa offered 10% on spare parts orders, everything was going well and the customer was happy. Now the customer is upset, along with Gelac.

Erle, I sincerely hope you can do something to prevent this kind of thing happening again. We remember you saying to us at the time Aviquipa was brought into the Lockheed family that they would not concern themselves with Gelac-supplied items. We feel we have done a good job to date supporting Georgia products around the world. We are convinced that the injection of a third party in the act at this time would not be in the best interest of Lockheed. It's tough enough doing business nowadays without having someone in your own house making the job more difficult.

Your immediate attention to this matter will be appreciated.

////
D. T. Crockett, Jr.

DTC:cl

CSF OSI 23

cc: T. J. Cleland
R. A. Fuhrman
R. I. Mitchell

REF. 64-20 279 DATE 5 NOVEMBER 19

DEPT. 04-20 ZONE 181

REF: By LDC CR/127, dated 1 February 1971, subject
Aviungo Company Activities in Indonesia.

On 3 February I met with [redacted] for approximately two hours during which the following information and special requests were presented to me. I will pass this info and requests on to you in the same order they were given to me.

1. The AURI will deposit an additional 300,000 dollars in our contract OIN-179 Letter Credit within the next two weeks to cover costs of spares and overhauled parts now held at Colno.
2. The AURI will deposit an additional 170,000 dollars in contract OIN-179 Letter Credit within the next two weeks to cover an order for Jetstar spare parts. (These are the parts Avicoups bid on).
3. The AURI will also place the 64,000 dollars in contract OIN-199 Letter Credit within the next two weeks that is needed to complete this contract. This will give us 114,000 in this contract that can be used to buy G-130 spare parts.
4. The AURI will establish a Bank Account in Singapore within the next 3 to 4 weeks; the account will be in ^{a name and} will be a numbered account. Colno must deposit the AURI's future commissions in this account.
5. After items 1 thru 4 have been accomplished, the AURI request that Colno then withdraw or take from the AURI deposit account held at Colno, 100,000 dollars and deposit this in their account in Singapore. (figuren they have about 130,000 in the deposit account at Colno).
6. The AURI request that Colno increase the AURI's commission from 5 per cent to 10 per cent. ^{anyway everyone but us is already} giving the 10 per cent commission.

2. told that I could make no commitments but that I would pass this on to the Comptroller. I did tell him that it would be impossible for us to release the money from the AVEZ deposit account unless the warrants listed above were placed in the latter Credit.

59 120 720 ~~PROTECTED~~ PROTECTED DATA

BEST AVAILABLE COPY

Murphy to Freund
Special Agent Request and Information

5 February 1971

Page -two

says that the defense budget for this year will be released on April 1971 and that he believes funds will be easier to get this year than they were the past year.

I have no way of knowing for sure if he can get all the funds he has requested for the latter credits, however, I think Golco should make a decision on his requests as soon as possible.

For the time being,
on this latter.

has requested that I handle all correspondence

C. A. Murphy
C. A. Murphy
Regional Representative
Pacific Area

cc: W. H. Edwards, 65-12, 207
O. S. Childs, 65-21, 24

LOGISTIC SUPPORT RESERVED DATA

INTERDEPARTMENTAL COMMUNICATION

TO G. B. Melhvin

DEPT. 69-50 ZONE 11 DATE May 10, 1971

FROM F. S. McKinney

DEPT. 69-50 ZONE 11 EXT. 44996

SUBJECT: VISIT TO AURI HEADQUARTERS, DJAKARTA, INDONESIA, APRIL 28-29, 1971

On April 28, a visit was made to _____ for the Indonesian Air Force. Also in attendance were M. Schneppe and F. Odenbach of LAS and T. Kelly, Gelac Field Service Representative in Indonesia.

The capabilities of the LAS Singapore facility for performing C-130 IRAN work were discussed. In this connection, Schneppe and Odenbach obtained the AURI ground rules for submittal of an IRAN proposal to do two aircraft in 1971. I assured _____ that Gelac management supports LASS IRAN efforts 100% in this part of the world. _____ admitted he is also obtaining bids from another company but would not divulge the name.

The question of "commissions" and our desire to establish a third party buffer for mutual protection was discussed. _____, harking back to Lake Charles and Dassaud, would not consider such an arrangement for an instant, not even on the promise that he appoint his own man. He made it loud and clear that we either do business his way, or not at all. Schneppe asked what percentage of commission _____ had in mind and _____ immediately replied, "10 percent." Schneppe agreed that LASS will have no problem meeting this requirement.

The center wing modification was next discussed and _____ requested an updated proposal from Lockheed, mainly for price. I advised that if the AURI aircraft were input into the USAF program through the auspices of the U. S. Defense Liaison Group (D.L.G.) in Djakarta, that \$250,000 per airplane could be used for planning purposes. There doesn't appear to be much hope of the AURI finding the money for this program. _____ cited three priorities in the order listed:

1. Return Ship 10Jp service. (This airplane has been a "hangar queen" since July 1969 having been stripped of engines and propellers and many systems' components.)
2. IRAN the eight AURI C-130B's.
3. Center wing replacement.

I learned (outside of this meeting) that the D.L.G. has \$800,000 with which to support the AURI this year. The money can go for either IRAN or center wing replacement, depending on the priorities established by _____ and we now know what they are. One factor that may aid the center wing program to some extent is that _____ is entertaining the idea of having the AURI do its own IRAN. He is not altogether confident, however, that his people have the capability. That is why he asked LASS for the proposal to do two aircraft this year.

MARKETING RESERVED DATA

AURI HEADQUARTERS, DJAKARTA,
INDONESIA, APRIL 28-29, 1971

May 10, 1971

Tied to this proposal, he wants a quote for sending six of his key people to Singapore to receive comprehensive on-the-job training in C-130 IRAN. His hope is that these people can gain adequate skills to permit one of the remaining six aircraft in-country. If this can be done, most of the 1971 D.L.G. funds would thus be freed to take care of center wing replacement on probably two aircraft. Hopefully, D.L.G. will be able to find funding next year to complete the center wing replacement program. At the moment, the entire situation is problematical and hinges on the final IRAN decision. As the meeting adjourned, I requested an appointment with [redacted] for the following morning to discuss new aircraft acquisition.

On the morning of April 29, I again met with [redacted] and presented a proposal offering 4-6 or 8 new C-130 aircraft for delivery in 1973. [redacted] remarked, "You must have smelled the smoke, because you have hit the bullseye with your proposal. Our planning is for money to become available during the 1973 time period to purchase new Hercules for delivery in 1974. We want another squadron of C-130's in addition to other types of aircraft." When I asked him how many airplanes comprise a squadron in the AURI, he replied, "Eight." He repeated several times how excellent our timing is in presenting the proposal now and alluded again to "smelling the smoke."

[redacted] was in a very jovial mood at both meetings. I learned that he had been advised of the deposit of the \$100,000 "commission" in the Singapore bank just prior to our arrival. This, undoubtedly, accounted for his benign mood.

The subject of center wing replacement was again discussed subsequent to presentation of the C-130H proposal. [redacted] asked for a firm quotation from Lockheed for sending his airplanes through the program. A L.G. sponsorship. I explained that the estimated price of \$250,000 per airplane which I had given [redacted] was based upon the aircraft being input through D.L.G. I further explained that Lockheed could not give a firm quote for D.L.G. and suggested that [redacted] go direct to Col. Melerovich and request this price without involving Lockheed. [redacted] immediately agreed to this approach and said he would pursue it.

On parting, I advised [redacted] that we would update the C-130H proposal every three months to keep it current.

In the afternoon of April 29, Schnoppe, Odenbach and I met with U. S. Ambassador Galbraith. Schnoppe explained the LAS presence in Singapore and the types of business (overhaul/IRAN/maintenance, etc.) which they are trying to obtain in that part of the world. He also briefed the Ambassador on the LAS to work with Indonesian commercial airlines, civil and police airlift agencies and the AURI in establishing a maintenance/overhaul base somewhere in Indonesia to take care of all types of aircraft. I then explained my Lockheed affiliation and role in Indonesia. The Ambassador thanked us for briefing him and advised he is available should we need help at any time.

From the Ambassador's office, we went to D.L.G. where Schnoppe again explained LASS's role to Col. Melerovich and stating frankly that he wanted D.L.G.'s assistance in obtaining the AURI IRAN program. Melerovich advised him that if [redacted] came through D.L.G. for IRAN on any of his airplanes, he, Melerovich, would have to exercise AFLC and that he would be directed where to place the aircraft (USAF AMA) for IRAN. Melerovich said that input would depend on which AMA was doing IRAN on C-130 at the time and how scheduling could be arranged. He also said that the number of aircraft input at [redacted] would be determined by funds available then. He then told Schnoppe that he had no knowledge

MARKETING RESERVED DATA

MARKETING RESERVED DATA

TO AURI HEADQUARTERS, DJAKARTA,
INDONESIA, APRIL 28-29, 1971

3

May 10, 1971

what funds AURI had available for any purpose at any time. He said, "If AURI wants to IRAN aircraft on its own, is a free agent and can choose any agency he pleases. I have no control over that whatsoever." Melerovich did not at any time reveal the amount of funds available for AURI expenditure during this meeting.

I did not mention center wing replacement to Melerovich, feeling that much more is to be gained by letting make the suggested approach.

Schneppe was not satisfied with the answers provided by D.L.G. and later announced his intention of pursuing matters through HQ/PACAF in an effort to have D.L.G. directed to support LAS Singapore.

Melerovich has told me in the past that HQ/PACAF is not a policy-making agency; that they only react to recommendations made by the D.L.G. with respect to the AURI. If this remains true, Schneppe's overtures at HQ/PACAF may well be for naught.

F. S. McKinney
F. S. McKinney

JSMCK:be

T. J. Cleland
✓ W. W. Cowden
D. T. Crockett, Jr.
P. F. Dobbins
J. F. Johnston, Jr.
C. C. Loubacher
E. E. Rainwater
S. Saliba
D. B. Sikes
A1.7.3
A6.2.1

MARKETING RESERVED DATA

LOCKHEED FINANCIAL DATA

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO R. I. Mitchell - Colac

DEPT. 01-18

ZONE 61

DATE May 14, 1971

FROM P. F. Dobbins/T. J. Cleland - Colac

DEPT.

ZONE

EXT.

SUBJECT: CORPORATE POLICY DECISION ON TRANSACTING BUSINESS IN INDONESIA

For over ten years, we have successfully done business with the Indonesian Air Force. This business until the last two years was conducted with the assistance of our consultant there. Subsequent to the dissolution of the Corporate relationship with our Indonesian consultant, we have been dealing on a direct basis with the Indonesian Air Force (AURI) without benefit of such an agency. Herein lies the problem.

_____ and one of his deputies, _____, are well aware that we paid commissions to our consultant and were very frank in discussing it with our people. They stated that since the consultant is no longer in the picture, they expect commissions to be paid direct to a numbered bank account in Singapore which they say is a "support fund" for the AURI.

In early 1970 when we proposed sending a team to Indonesia to replace the wing corner fittings in the eight AURI C-130's, _____ sold the AURI would buy the program if Lockheed paid a 5% commission. Agreements to this effect were drawn up and the job was subsequently accomplished and a cash "commission" handed over to _____ through our Field Service people. _____ made it clear at that time that 5% "commission" must be paid to the AURI on all future monies expended on Lockheed products.

In the first quarter of 1971, _____ advised our Field Service Representative and subsequently our Sales Representative that Avilquipo had solicited AURI spare parts business and had offered to pay 10 to 15 percent "commission," depending on the size of the order. He advised us that he would like to continue doing business with Lockheed-Georgia but, in view of the Avilquipo offer, Lockheed-Georgia would have to increase "commissions" to 10 percent on all future sales to the AURI.

In a meeting in _____'s office on 28 April last, _____ made it clear to F. S. McKinney (Sales Rep., Colac), F. D. Kelly (Field Service Rep., Colac), and M. Schneppe and F. Odenbach (LASS) that 10 percent "commission" would have to be paid direct to the AURI by any Lockheed organization doing business, of whatever nature, with the AURI.

It was pointed out to _____ that Lockheed does not normally conduct business of this nature on a direct basis. He was asked to seriously consider a third party through whom we could mutually conduct business, and our people indicated that we were quite willing to welcome an individual of his choosing. The advantages to be gained in mutual protection were pointed out; however, _____ summarily refused this suggestion on the basis that a third party would have to be paid, which would only dilute the AURI "commission." He made it quite clear that if we want to continue doing business with the AURI we will do it their way. Further

LOCKHEED PRIVATE DATACORPORATE POLICY DECISION ON
TRANSACTIONING BUSINESS IN INDONESIA

May 14, 1971

argument at this point being useless, the LASS people agreed that they could meet the "commission" and method of payment procedures and McKinney advised that he would refer the matter to his management for solution.

If Lockheed elects to do business in the prescribed AURI fashion, some of the hazards that we might be exposed to are:

1. Since we have no agency agreement in Indonesia, we have no legal means of charging off these "commissions." Thus, they may not be considered allowable deductions by the Internal Revenue Service.
2. If such payments should some day become public knowledge, the repercussions could be damaging to Lockheed's name and reputation.

On the other hand, Lockheed feels we cannot afford to do business the AURI way, we take a calculated risk and could lose the following potential business:

1. \$300,000 or more per year in spares sales, contract technical service and parts overhaul business.
2. Sales of eight new Hercules and complete support in the 1973-1974 period; amounting to an estimated \$40 million.
3. IRAN/Overhaul work at the LAS Singapore facility. Value unknown.

thus becomes a matter of which alternative to choose.

We refer this problem to your office for decision because of its complexity and since it involves more than one Lockheed division. A common policy for the guidance of all divisions in this and similar future cases is deemed essential to the best interests of the Corporation. We would appreciate a position on this matter as soon as possible, and in any event, no later than the end of May, so that we may proceed with our marketing programs in Indonesia.

P. F. Dolbins

T. J. Cleland

PFD/TJC:be

J. T. Crockett, Jr.
R. A. Fulmer
William Kite/Cork

INTERDEPARTMENTAL COMMUNICATION

TO: P. F. Dobbins/T. J. Cleland
 FROM: R. J. Mitchell
 SUBJECT: TRANSACTING BUSINESS IN INDONESIA

DATE: May 26, 1971
 EXT: 76543

Handwritten: New York, NY
 Sh...
 May 27 1971

With reference to your joint memo of May 14, 1971 requesting Corporate policy decisions on this subject, I am quite concerned about two aspects: the AURI's resistance to establishing a third party buffer, and the suggested level of commissions.

On the first point, it is simply imperative that we convince the AURI of the need for at least a Nominal buffer. I think some very convincing arguments could be built around three points:

- The significant protection provided for them as well as for us.
 - The fact that payment instructions can remain precisely as already established.
 - That no "dilution" of commissions is required because we see no requirement for any active participation by the third party.
- Handwritten:* MAY 27 1971
 PORTER DOBBS

I have discussed with Jim Wilkerson a very simple technique whereby could easily comply with our requirements at no cost or trouble to him and his associates. In fact, our idea would furnish him additional protection (insulation) as well as ourselves. I have asked Jim to describe this to Bill Cowden.

We certainly should avoid exposing our corporation and our customers by doing business in the manner suggested by . . . We should accept the calculated risk you visualize in refusing "to do business the AURI way" because I believe we can develop a mutually satisfactory arrangement. Also (quite apart from the obvious hazards) unwritten agreements have a way of becoming distorted over time.

With respect to the commission scale, let's not lose our perspective. . . could be expected to shoot high, particularly if he had been led to believe that the "going rate" was 15%. However, when we remember that the AURI's resources are indeed limited, it is to our

TRANSACTIONING BUSINESS
IN INDONESIA

May 26, 1971

advantage to keep the commission within reason because we can get a larger slice of the total. My idea of a reasonable scale would be, 3% on airplanes and 5% on other sales. We definitely should fight for a maximum of 5% on the sale of airplanes and major modifications programs, with a ceiling of 10% on smaller spares orders. Obviously we must weigh the competitive aspects and I'm willing to concede - reluctantly - that the IRAN program in Singapore falls within the definition of competitive necessity.

We are still in business for the long term, not for the quick buck, and I feel these guidelines are better for the long pull. As you say, we could lose some business but the risk seems acceptably small.


R. I. Mitchell

cc: D. T. Crockett
R. A. Fuhrman
C. M. Schnepf
Wm. Riecke

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO G. B. Motlwin

DEPT. 69-50 ZONE 11 DATE January 10, 1972

FROM F. S. McKinney

DEPT. 69-50 ZONE 11 EXT. 44996

SUBJECT: AURI COMMISSIONS

I checked today with Lee Martin and Jess Phillips to determine if they had ever received any instructions, or written agreement, concerning payment of "commissions" to the AURI. In both cases, the answer was negative. Thus, as far as Golac is concerned, there are still no channels established for payment of those expected "commissions."

During the joint visit of R. I. Mitchell and myself to Indonesia last July, he (Mitchell) agreed, upon his demand, that Lockheed would pay a 10% commission on all future hardware and services purchased from Lockheed by the AURI. Subsequently, as you know, Mitchell established International Traders Ltd. as the medium through which such commissions would be paid.

As you also are aware, a real foul-up occurred the first time International Traders was used for payment of some Lockheed funds which had been owing. Mitchell thereupon cancelled the agreement with International Traders, retrieved the funds and paid them through LAIL, Hong Kong. At the time this was done, we were told by Jim Wilkinson that future AURI commissions would be paid through this channel. However, no comment to this effect was ever drawn for our Contracts people so that the payment of "commissions" would become a routine function.

In the last quarter of 1971 Tom Kelly resold his contract to the AURI for another year of Field Service technical coverage. He will be expecting the 10% "commission" on this renewal, per the verbal agreement made in Djakarta in July 1971.

The AURI hierarchy is presently fairly well satisfied with Lockheed, after several years of ill concealed hostility. This is because the Lockheed funds were recently paid through LAIL. It would be a shame to allow these improved relations to deteriorate to their status of early 1971. However, this is exactly what will happen unless an agreement is drawn which will activate repayment to the AURI automatically, as required, and a channel established through which the money can be paid. (We lost our Hong Kong outlet with the closing of that office.) The agreement must be such that it will withstand Internal Revenue Service scrutiny, inasmuch as funds repaid the AURI should be tax deductible.

I am still confident that the AURI intends to acquire eight additional C-130's in the next couple of years, provided we continue to do business their way. However, this potential could be completely voided if the means are not established, soon, to do this.

F. S. McKinney

F. S. McKinney

cc: J. K. Anchors
W. W. Cowden
R. D. Engelhart, Jr.
✓ A1.7.1

LOCKHEED-GEORGIA COMPANY

INTERDEPARTMENTAL COMMUNICATION

TO P. L. Martin/Gelac DEPT/ BDD/ PLAIN/ DATE 10 August 1972
C. M. Valentine/LAS ORG/ BDD/ FAC

FROM J. H. Wilkerson DEPT/ 07-50 BDD/ 61 PLAIN/ A-1 EX. 71979
ORG/ BDD/ FAC

SUBJECT Commissions on Sales to A. U. R. I.

Attached is a true copy of the pertinent paragraph of the Letter of Agreement dated 28 July 1971. This specifies the commission payable on certain direct sales by Gelac and LASS to A. U. R. I.

Payment should be made to:

Bank of America
International Banking Office
101 West Seventh Street
Los Angeles, California 90014

For the account of
Lockheed Aircraft (Asia) Limited
Account Number 06626 - 06348

Simultaneously with payment as indicated above, J. W. Clutter, President of LAAL, should be advised of the payment and requested to forward the proceeds by cashier's check. A confidential info copy of the notice to Mr. Clutter should be sent to Mr. T. D. Kelly in care of LASS in Singapore.

It is very important that these transactions be handled discreetly. Therefore, please advise only those offices within your company who definitely need to know of this agreement.


J. H. Wilkerson

cc: D. W. Cederberg
J. W. Clutter
R. I. Mitchell

Limited Distribution (PLM 8-15-72)

J. K. Anchors

28 July 1971

Letter of Agreement

In accordance with agreements reached this date, and for services rendered, Lockheed will remit 10% commission on all A.U.R.I. direct procurement from Lockheed Georgia Co. and Lockheed Aircraft Service Singapore (excluding government-to-government transactions) for C-130 and Jetstar, spares, ground support equipment, component overhaul, technical services, and modification/iran programs performed outside the U.S.A. New or used aircraft procurement, modification/iran programs performed in the U.S.A., and other Lockheed products and services shall be the subject of separate negotiations.

INTERDEPARTMENTAL COMMUNICATION

TO: D. H. Menke LAS-S DEPT. BLDG. PLANT DATE May 16, 1973

PERSONAL AND CONFIDENTIAL

C73191

FROM: D. W. Cederberg LAus DEPT. BLDG. PLANT EXT.

SUBJECT: INDONESIA

Dear Bob,

Subsequent to my IDC to you, C73162 dated May 1, 1973, I received another anguished phone call from " on May 9 that commission on the Gelac JetStar engine transaction had still not been paid into his Singapore account. I fired off telex messages to Clutter and Cliff Witte. Cliff did some quick checking and discovered that Golac had sent the money to L.A. but had neglected to trigger Clutter to make the transfer! After some fast action on somebody's part, Clutter advised me that a cashier's check for US\$20,000 was airmailed to the Singapore bank on May 10.

I teleconed this belated news to " on May 10. (He is still at home recovering from illness, but expects to be back at work any day now.) I thought the matter was finally settled, but I got another call from " yesterday saying the deposit had not yet reached his bank. However, he was under the impression that it was T.T.'d from Clutter's office to Singapore. I told him to keep checking with the bank because the airmail letter should surely reach there any moment.

Bob Engelhart also received a phone call from " last week concerning status of closing out the deposit account related to Gelac contract GLX-199. Engelhart convinced " that the deposit funds (about US\$17,000) should be left in the Marietta account until at least August. According to Engelhart, it appears that the T-56 engines sent to Gelac, in February, for overhaul will eat up everything presently in the GLX-179 Letter of Credit - and then some! " is trying to get another US\$300,000 from the government to add to the approximately US\$450,000 already in the GLX-179 Letter of Credit, but this will take time and may not occur by the time the engines are ready for return shipment. In that instance, Gelac would draw on the GLX-179 and GLX-199 deposit accounts to make up the necessary difference after drawing down the total amount in the GLX-179 L/C.

At any rate, as soon as " gets confirmation from his bank regarding the deposit which Clutter airmailed on May 10 - I should have his Gelac monkey off my back until August. (Unless he gets additional money to pump up the GLX-179 L/C in the interim - in which case he will be back on me in a flash wanting to close out the GLX-199 deposit account!)

The reason I gave you the foregoing background was to bring you up to date on how the Gelac situation presently stands, in case "

CHART (AUSTRALIA) PTY. LTD.

D. H. Menke

May 16, 1973

" tries to give you a different story; and to alert you that " is now beating my ear about the JetStar work you're doing in Singapore - with regard to payment arrangements and commission. In this instance, he keeps referring to "Mr. Odenbach's promises." " says that previous experience indicates that it takes "two to three" months from the time AURI pays LAS-S in Singapore before commission is received by his bank. He says you told him that commission must be paid through California. He fails to understand why you simply cannot deduct commission from the payment LAS-S receives in Singapore and deposit it straight into his account - instead of going the long way around through California.

I've suggested to him that you have no control over dissemination of payments received in Singapore. I made words that "the corporate accounting system" and "taxation authorities, etc." will not permit you to hive off commission in Singapore as a direct transaction with his bank. I did concur with him that "two to three" months for commission to be processed through California seems excessive, and that I would bring this to the attention of you and Bob Mitchell. " is concerned with commission that will be payable on JetStar work you are presently completing. He says the work will be finished this week or next week for sure. Inasmuch as AURI will simultaneously give LAS-S full payment, in Singapore, how come he can't get commission paid into his bank within a day or two from that date?

Although I most certainly have not discussed this aspect with " " I believe it is Corlac's ruling that all commissions paid into Singapore must go through a "sanitizing" process involving Clutter's office. I presume the AURI payments LAS-S receives are remitted in full to Ontario, after deducting LAS-S overheads; then Ontario follows the same procedure used by Gelac in hiving off commission.

As you know, I keep ending up as the meat in " sandwich when commission delays occur, because he knows I work directly for Bob Mitchell and "Mr. Mitchell promised....." I would be very grateful for anything you can personally do to assure " that LAS will expedite payment of commission on the work now nearing completion. He has highest regard for you and Jim Watt, and I hope he will accept whatever plausible explanation you guys can give him. I would hope the commission in that instance is settled before I visit Djakarta early next month, otherwise I'm probably in for another rough session with him.

Incidentally, Bob, I find it disconcerting - but at the same time reassuring - that " talks so openly about commission payments in his telephone calls to me. I talk as guardedly with him as circumstances of the conversation will allow - but he seems totally unconcerned that the telephone line might be bugged on his end. He is certainly no fool; and his open attitude toward

3.

the subject indicates to me, at least, that he feels secure from backlash from his higher-ups. This is something you and I must discuss next time I'm in Singapore. Maybe you and I should go straight to his boss, lay the cards on the table, and get personal assurances from the boss that " " is indeed acting on behalf of "the board of directors." Maybe you've already spoken to the boss in this regard; if so, I need to know about it. The Gelac guys are very concerned that they're flogging a dead horse under the present arrangement of dealing exclusively with " " " ". I don't completely agree with Gelac, because I suspect "s" boss is bound to know what's going on, and would have jumped all over us (through you, since you know the boss so well) if the boss didn't want " " in the loop.

Best regards,

Robert

D. W. Cederberg

cc. R. D. Engelhart✓
R. R. Witte

SJ557-29 09225

GA

07/75

LOCKHEED-GEORGIA COMPANY

ATTN: BOE ENGELHART - LWEC

INFO: TED RIDINGS - 69/50

W. W. COWDEN - 68/50

JD3-70-75

REF YOUR REOS1. WOULD BE GLAD TO SEE YOU AND DISCUSS DJAKARTA SITUATION AND COULD GO WITH YOU TO DJAKARTA IF NECESSARY. PERHAPS, FOR, I SHOULD ELABORATE ON THE SITUATION THERE AS IT DOES APPEAR TO BE THERE IS SOME MISUNDERSTANDING AS TO HOW THE CHANGES WERE BROUGHT ABOUT AND WHAT TODAY'S SITUATION REALLY IS. BASICALLY.

IN PERTAINING REQUIREMENT FOR 2 COMMERCIAL HERCULES NO LONGER EXISTS, AT LEAST NOT FOR THE PURPOSE OF TRANSPORTING THE ITEMS HARIET HAD IN MIND WHEN HE BROUGHT THE IDEA INITIALLY. PRESIDENT SUHARTO LIKES THE IDEA OF USING COMMERCIAL HERCULES TO TRANSPORT SUPPLIES AND EQUIPMENT FROM EUROPE, HOWEVER, HIS FEELING IS THAT A NEW ALL-CARGO AIRLINE SHOULD BE CREATED FROM SCRATCH, PROPERLY EQUIPPED, ORGANIZED AND SET UP IN A MANNER WHICH WILL MAKE IT A PROFITABLE ORGANIZATION, USING UP-TO-DATE EQUIPMENT AND MODERN MANAGEMENT TECHNIQUES. HIS DECISION IS TO HAVE AVIATION DEVELOPMENT CORPORATION PERFORM THIS TASK. TO ACCOMPLISH THIS, HE HAS DIRECTED THE MINISTER OF COMMUNICATION TO ISSUE A LICENSE FOR AN ALL-CARGO AIRLINE WHICH IS TO BE SET UP BY THE AFOREMENTIONED AVIATION DEVELOPMENT CORPORATION. THE MINISTER OF COMMUNICATION HAS ALREADY CONTACTED MR. SOELARTO WHO IS PRESIDENT OF ADC AND CONFIRMED TO HIM THAT THE PRESIDENT'S INSTRUCTIONS WILL BE FOLLOWED AND A LICENSE WILL BE ISSUED AS SOON AS AN APPROPRIATE APPLICATION IS SUBMITTED. PRESIDENT SUHARTO FURTHER SUGGESTED TO MR. SOELARTO AND TO HARIET THAT LOCKHEED, AS THE SUPPLIER OF THE COMMERCIAL HERCULES AND A MAJOR AEROSPACE FIRM, SHOULD BE ABLE TO PROVIDE ASSISTANCE, ADVICE, COUNSEL AND SUPPORT IN ORGANIZING THE AIRLINE--MAKING NECESSARY STUDIES, FINDING FINANCING FOR AIRCRAFT PURCHASES, ETC, ETC. WHAT THIS ALL MEANS IS: FIRSTLY, YOUR PROPOSAL TO PERTAMINA IS NO LONGER GERMAIN. A NEW PROPOSAL FROM SOMEONE, AND MY SUGGESTION, WOULD BE CELAC, MUST NOW BE SUBMITTED TO AVIATION DEVELOPMENT CORPORATION FOR THE PURCHASE OF TWO COMMERCIAL HERCULES AS WELL AS A PLAN, PERHAPS A PROPOSAL FOR A MANAGEMENT TEAM, WHICH COULD HELP GET THE AIRLINE ORGANIZED AND OPERATING. ALL OF THE FOREGOING IS SIMPLY A BUSINESS OPPORTUNITY AND CONSISTS OF TODAY'S

INsofar AS SELLING THE COMMERCIAL HELICOPTER IS CONCERNED, SOELARTO COMPLETELY APART FROM THIS RELATES TO THE MATTER OF AN INDOONESIAN CONSULTANT. AS HARIBI RELATED THE INITIAL CONVERSATION TO ME, PRESIDENT SUMARTO HAD SUGGESTED TO HIM THAT AN AVIATION DEVELOPMENT CORPORATION WOULD BE A BETTER REPRESENTATIVE TO KEEP LOCKHEED IN INDONESIA THAN WOULD PT GADING MAS (GENERAL MAS'S COMPANY). ACCORDING TO HARIBI, SOELARTO HAD ALREADY LET IT BE KNOWN THAT HE WOULD LIKE GADING MAS TO REPRESENT US. LATER, WHEN I MET SOELARTO PERSONALLY, HE STATED THAT THE PRESIDENT HAD MENTIONED TO HIM SOME 10 DAYS PREVIOUSLY THAT IT WOULD BE A GOOD IDEA FOR HIM TO TRY AND WORK WITH LOCKHEED. SOELARTO SAID, AND IT WAS LATER CONFIRMED BY AIR MARSHALL [REDACTED], THAT THE AIR FORCE HAS BEEN INFORMED OF THE PRESIDENT'S SUGGESTION AND HAVE SAID THEY WILL COOPERATE. DURING A LUNCHEON JUST BEFORE MY DEPARTURE FROM DJAKARTA, SOELARTO TOOK ME ASIDE, TOLD ME OF HIS AND THE CHIEF OF STAFF'S CONVERSATION WITH YOU (WHICH YOU HAD ALREADY BRIEFED ME ON IN TOKYO) AND SAID THAT EVEN THOUGH MR. SOELARTO MAY BE APPOINTED TO DEAL WITH US ON MAJOR PROGRAMS, HE HOPED THAT SOME ACCOMMODATION COULD BE MADE IN USING [REDACTED]'S COMPANY, AT LEAST FOR SPARE PARTS. I ASSURED SOELARTO THAT I THOUGHT HE COULD OBTAIN ENOUGH FLEXIBILITY TO WORK OUT SOME KIND OF AN ARRANGEMENT WITH [REDACTED]. I SUBSEQUENTLY TOLD SOELARTO ABOUT OUR DESIRE TO ACCOMMODATE THE AIR FORCE'S WISHES IN THIS MATTER AND THAT WE HAD KNOWN [REDACTED] FOR A LONG TIME AND SUGGESTED THAT PERHAPS HE COULD WORK OUT SOME KIND OF ACCOMMODATION WITH [REDACTED]. HIS RESPONSE TO THAT WAS GENERALLY FAVORABLE, HOWEVER HE SAYS PRESIDENT SUMARTO IS NOT SO HAPPY WITH THE FLIGHT AND PASSENGER HANDLING OPERATION AT HALIM AND MIGHT OBJECT TO ANY KIND OF A SOELARTO/TIE-UP.

IN SUMMARY, I STILL THINK WE CAN AND SHOULD FIND A WAY TO ACCOMMODATE THE AIR FORCE'S REQUEST IN THIS MATTER. HOWEVER, WE ABSOLUTELY CANNOT IGNORE SMC'S DESIRE OR THERE WON'T BE ANY BUSINESS TO SHARE WITH US. WE CAN TALK ABOUT ALL THIS IN MORE DETAIL WHEN YOU ARRIVE IN THE AREA, BUT I FELT IT MIGHT BE BENEFICIAL TO GET THIS PRELIMINARY DATA INTO YOUR HANDS SO THAT YOU COULD GIVE IT SOME THOUGHT BEFORE LEAVING MARICITA.

BEST REGARDS

DAVIDSON

RECEIVED

MAR 7 1975
U.S. COAST GUARD

103070906

HO1022

64R337

03/17/75

1 LA

1 SA

03/18/75

ATTN: CG BRILL - LIC, BURBANK
INFO: MR CONDON - GELAC

MR EGAN - LIC

RD ENGELHART - GELAC

JD3-140-75

SUBJECT: CONSULTANT SITUATION - INDONESIA

CHRONOLOGY OF MEETINGS WHERE CONSULTANT QUESTION CAME UP
WAS AS FOLLOWS:

AAA ENGELHART MET WITH

AND

AIR FORCE

PRIOR TO MY ARRIVAL ON TUESDAY

11 MARCH. AS LATER RELATED TO ME SUBJECT OF SOCLAPTO AS

CONSULTANT WHO LOCKHEED CAME UP DURING MEETING AND IT WAS

CLEAR TOP LEVELS IN AIR FORCE ARE AWARE OF SOCLAPTO

SITUATION. THEY DON'T NECESSARILY LIKE IT SINCE IT CONFLICTS
WITH THEIR PLANS.

THEIR PLANS.

WE ARRIVED JAKARTA EARLY EVENING OF 11 MARCH AND MET WITH ENGELHART IMMEDIATELY AFTERWARD. HE BRIEFED ME ON HIS EARLIER MEETING THAT DAY WITH [REDACTED] AND [REDACTED]. AT THIS TIME I ALSO GAVE HIM DETAILS OF WHAT TRANSPIRED DURING MY 23-27 FEBRUARY JAKARTA VISIT.

CCC ON THE MORNING OF 12 MARCH WE BOTH MET WITH SOELARTO AND ASSOCIATES HOWEVER THIS DISCUSSION WAS CONFINED STRICTLY TO THE PROPOSED NEW CARGO CARRIER.

WE MET FOR LUNCH AND DISCUSSION ON THE AFTERNOON OF 12 MARCH WITH [REDACTED]. AT THIS MEETING [REDACTED] WENT INTO CONSIDERABLE DETAIL CONCERNING SOELARTO'S CONNECTION WITH [REDACTED] AND SOUNDED AS THOUGH HE HAD NO REAL EXPECTATION WE WOULD BE ABLE TO SPLIT OFF ANYTHING FOR HIS COMPANY, WHICH THE AIR FORCE SPONSORS, WITHOUT CONCURRENCE OF SOELARTO. WE HAD SEVERAL THINGS TO SAY ABOUT CLOSE RELATIONSHIP AND LONG FRIENDSHIP BETWEEN SOELARTO AND TOP AIR FORCE BRASS, INCLUDING HIMSELF, AND EXPRESSED CONFIDENCE SOME ACCOMMODATION COULD BE WORKED OUT AMONG THEMSELVES.

ENGELHART AND I DRETFERRED AT HOTEL AFTERNOON OF 12 MARCH AND HE DEPARTED FOR AUSTRALIA LATER IN EVENING. HE SAYS HE'S CONVINCED SOELARTO'S POWER IS REAL HOWEVER STILL FEELS SOME RELUCTANCE TO LEAVE THE AIR FORCE CHOICE COMPLETELY OUT.

MY RECOMMENDATIONS:

WE SHOULD PROCEED WITH A BASIC CORPORATE AGREEMENT WITH SOELARTO

BEST AVAILABLE COPY

REPORTED FOR AUSTRALIA LATER IN EVENING. WE SAW THAT'S
 DOMINANT SOELARTO'S POINT. IT DON, HOWEVER STILL FEELS SOME
 RELUCTANCE TO LEAVE THE AIR FORCE CHOICE COMPLETELY OUT.

MY RECOMMENDATIONS:

WE SHOULD PROCEED WITH A BASIC CORPORATE AGREEMENT WITH SOELARTO
 OF HIS AVIATION DEVELOPMENT CORPORATION AND ADD PRODUCT LETTERS
 AS APPROPRIATE WHEN THE TIME IS RIPE. THAT COULD BE VERY SOON
 IN SOME CASES, IT COULD BE MUCH LONGER, OR PERHAPS NEVER, IN
 OTHER CASES.

REGARDS

DAVIDSON

LAAL SINGAPORE

1944PMPT

1489

103141/16

103152

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MAR 14 1975

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SAUDI ARABIA

(1001)



CALLED NEW GDB

LOCATED AIRCRAFT INTERNATIONAL LEAD

Distribution

July 5, 1966
31A-613,3

Gerald B. Juliant

3-820

LA

237

COMMUNICATIONS IN RECOMMISSION - A. H. KRAMER

During a recent conference in New York with Aaron Kramers, he requested that any and all communications touching upon commissions, however innocuous they might seem to the sender, be sent solely to his representative:

Gerald Kramers
2 Place du Port
Geneva, Switzerland
Telephone 225-805 (Residence 350465)

and that mail should be used, rather than telex.

He begged that no mention of any commissions ever be sent to either Beirut or Saudi Arabia.

Gerald B. Juliant
Gerald B. Juliant

GDB/Jc

Distribution:

Roger Williams - Los Angeles
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D. T. Crockett, Jr.	H. H. Walker

COPY OF
INCOMING TELEGRAM

Date

9-10-65

To:

W. A. SMITH
G. E. MASTIN
E. J. HAUSMAN/
T. F. MORROW
C. M. VALENTINE
R. H. CANAN

LAI/LCSA
GELAC/MARIETTA
GELAC/MARIETTA
LAS/ONTARIO
CORLAC/BURBANK

4GN-51456 TO PUT CONSULTANT AND COMERCIALY UNSCPHISTICATED
"FRIENDS" AT EASE RE NCVATION OF CORLAC AGREEMENT WITH
CONSULTANT I PLAN TO GIVE HIM A COVERING LETTER WHICH WILL
SAY THAT IN THE EVENT ANY LAIAG/SAUDI CONTRACTS MAY IN FUTURE
BE ASSIGNED BY LAIAG TO ANOTHER LAC ENTITY THE EXISTING
OBLIGATIONS TO CONSULTANT WILL EITHER CONTINUE TO BE PAID BY
LAIAG OR BY ANOTHER LAC ENTITY. THIS WILL SATISFY THE OTHER PARTIES.
WILLIAMS

Distributions: EJM: dapi 9-10-65
J. H. Keen ✓

LOCKHEED AIRCRAFT INTERNATIONAL A.G. - GENEVA - SWITZERLAND
 INTERDEPARTMENTAL COMMUNICATION

TO Messrs. W.A. Smith, LAI C.M. Valentino, LAS
 Guy E. Martin, GELAC H.H. Cannon, CQFLAC
 E.J. Hausman, GELAC ✓ J.H. Martin, CALAC
 T.F. Morrow, GELAC

DATE September 13, 1965

FROM Roger Williams, LAIAG

REF: 40K-51460

SUBJECT: NOVATION AGREEMENT

Attached is a copy of the letter which I have sent to Adnan Khashoggi, our Saudi Arabian consultant, concerning the Novation Agreement whereby Lockheed Aircraft International A.G. will assume all of the obligations of Lockheed Aircraft Corporation in connection with the ALHADR Consultant Agreements.

Many of our consultant's friends are not familiar with western commercial transactions and they want to have some assurance that our consultant would continue to receive his consulting fees even if LAIAG as a subsidiary corporation were dissolved or if for some other reason the principal contracts between LAIAG and Saudi Arabia were assigned by LAIAG to Lockheed Aircraft Corporation or another Lockheed entity.

Roger Williams

Encl.

Distribution: E.J. Hausman: cap: 9-20-65

J. H. Kean ✓
 D. D. Stone/Corlec



E. J. HAUSMAN

MAIL ADDRESS: LOCKHED GENEVA

TELEPHONE: (022) 32 49 00

TELEX: 82289

LOCKHEED AIRCRAFT INTERNATIONAL A.G.7, RUE CORNAVIN, 1201 GENEVA
SWITZERLAND

September 10, 1965

ALNASR Trading & Industrial Corporation
P.O. Box 6
Riyadh, Saudi Arabia

Ref. 51458

Attention Mr. A.M. Khashoggi
Chairman and Managing Director

Gentlemen:

We have previously forwarded to your office for execution the proposed Novation Agreement whereby Lockheed Aircraft International A.G. assumes all of the obligations of Lockheed Aircraft Corporation in connection with ALNASR Trading and Industrial Corporation's Consultant Agreements with Lockheed Aircraft Corporation.

As you know this action is necessary since it is Lockheed Aircraft International A.G. that has sold equipment and services to the Kingdom of Saudi Arabia and therefore only Lockheed Aircraft International A.G. receives payment from the Kingdom of Saudi Arabia. In fact Lockheed Aircraft International A.G. has already made initial payments to ALNASR in anticipation of your executing the Novation Agreement. It is my understanding that you will have your representative Mr. Boissier deliver the signed Novation Agreement to me after he sees Mr. Khashoggi in Paris next week, so that there will be no complication in connection with future payments to ALNASR.

Of course, in the unlikely event that Lockheed Aircraft International A.G. should at some later date assign any of its interests in its contracts with the Kingdom to some other Lockheed entity, Lockheed Aircraft International A.G. would either continue to make required payments to ALNASR under said Consultant Agreements or in the alternative such obligation would be assumed by Lockheed Aircraft Corporation, or an appropriate subsidiary or affiliate of Lockheed Aircraft Corporation.

Very truly yours,

LOCKHEED AIRCRAFT INTERNATIONAL A.G.

LOCKHEED AIRCRAFT INTERNATIONAL A. G.

7 RUE DE COINVAIR
GENEVE, SWITZERLAND

CHAMLI LOCKART TWIX GENEVE 17775
TELEPHONE: GENEVE 32-40-03

LOCKHEED AIRCRAFT INTERNATIONAL, INC.
100 WEST BIRTH STREET
LOS ANGELES 14, CALIFORNIA, U.S.A.
CABLE: LOCKINT TWIX LA 1000

NOTE:

October 7, 1966

Mr. Charles Jackman will hand carry this letter and will obtain agent's signature. Jackman is to obtain agent's copy of letter dated September 2, 1966, which was signed by Jackman on behalf of "Lockheed-Georgia Company".

DISTRIBUTION: CEE 10-10-66

J. Cleland
S. Hilburn
P. Morrox
D. Stone/Corlac
Roger Williams/LAI
H. Wilkerson
G. Otse/LAIAG-Geneva

ALPASH Trading & Industrial Corporation
c/o Gerard Boissier
2 Place du Port
Geneva, Switzerland

Gentlemen:

This will confirm our mutual understanding and agreement, as hereinafter set forth, regarding that certain Consultant Agreement identified as M54-205, dated October 27, 1964, which was supplemented by side letter agreements identified as M54-206, dated October 27, 1964, and M54-209, bearing no date (all hereinafter referred to as the "Agreements"). For convenience, you will be referred to as "Consultant" and we will be referred to as "LAIAG".

1. Notwithstanding the provisions of the Agreements, compensation becoming due and payable to Consultant in connection with the Airplane sold to the Kingdom of Saudi Arabia under Change Order No. 5 to Contract No. LAIAG 1101 shall be reduced by Fifty Thousand Dollars (\$50,000.00).
2. In reimbursement of the reduction of \$50,000.00 under 1. above, Lockheed shall pay to Consultant a total of Fifty Thousand Dollars (\$50,000.00) additional compensation in connection with future sales of Hercules Spare Parts and Ground Support Equipment to the Kingdom of Saudi Arabia; provided, however, that said additional compensation shall be paid by Lockheed in such increments and at such times as Lockheed and Consultant shall mutually determine.

If the foregoing correctly sets forth our mutual understanding in the premises, kindly so indicate by signing in the space provided below and by returning to us two copies of this letter.

Very truly yours,

LOCKHEED AIRCRAFT INTERNATIONAL A. G.

The foregoing correctly sets forth our mutual understanding and Agreement in the premises.
Dated at: "

E. J. Haugran
Attorney-in-Fact

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO T. F. Morrow

DEPT. 93-01 ZONE 32 DATE March 30, 1967

FROM C. M. Jackman

DEPT. 69-06 ZONE EXT.

SUBJECT: PRICING INFORMATION ON LOT 30 AND LOT 31 C-130 AIRPLANES
FOR SAUDI ARABIAN PROPOSAL.

Ref: J. H. Wilkerson's notes during telcon with C. M. Jackman
January 1967.

	<u>LOT 30</u>	<u>LOT 31</u>
1. Basic Price Per ER/6600M Spec.	\$ 2,375,000	\$ 2,425,000
2. Saudi Peculiar Changes	20,000	20,000
	<hr/>	<hr/>
Net to Celac (per Saudi Spec. Airplane)	\$ 2,395,000	\$ 2,445,000
3. 7% Commission (to Nearest \$100.)	180,300	184,000 <i>Com</i>
	<hr/>	<hr/>
Sub Total	\$ 2,575,300	\$ 2,629,000
4. Agent's Override	41,000	41,000 <i>+</i>
	<hr/>	<hr/>
	\$ 2,616,300	
	<hr/>	
Proposal Price To Use	\$ 2,617,000	\$ 2,670,000
	<hr/>	<hr/>

CW:sp
cc: D. W. Goddard
J. H. Wilkerson

C. M. Jackman
C. M. Jackman

CABLE ADDRESS: LOCKHEED GENEVA

TELEPHONE: (041) 32 48 22
TELEX: 60 4

LOCKHEED AIRCRAFT INTERNATIONAL A.G.

7, RUE CORNAVIL, 1201 GENEVA
SWITZERLANDPERSONAL

4 September 1957

Mr. E.J. Hausman,
Director of Contracts,
Lockheed Georgia Company,
85 South Cobb Avenue,
MARLETTA, Georgia 30051.

Ref: 40N-74431

Subject: Payment of Commissions to Alnazz Trading & Invest-
ment Corp.

Dear Ed,

This refers to your letter of 31 July 1957. On 23 August, I had occasion to have a meeting with Adnan Khashoggi on matters unrelated to the subject of this letter, however, closing the day's business out both Mr. Khashoggi and his Geneva man enquired about the holdback of \$50,550.17 which are the financial charges on the fifth aircraft.

I parried him as you suggested by stating that there is an unresolved and outstanding item pertaining to financial charges that still must be resolved and that is the reason for the holdback. Khashoggi was understanding enough however he did offer a suggestion which may have some merit.

He indicated that to get this matter off dead centre, why did not LAIAG prepare invoices in the amount of \$50,550.17, submit them through channels to the Saudi Arabian Government and seek payment from the Government for this amount. Khashoggi felt the Government would be receptive to this and he, Khashoggi, would push it through. In this particular case, he has a great interest in pushing it through, since the money will really wind up in his pocket.

As I understand it, the financial charges were actually deducted from LAIAG's account and in essence went to us. LAIAG could issue such invoices and follow the course which Khashoggi suggests. One thing which concerns me somewhat is that when LAIAG does issue its invoice, it may be argued then that LAIAG is tacitly admitting this item of financial charges was for its account and therefore why should the Saudi Arabian Government pay this amount when there apparently is nothing in writing specifically covering it.

00757000925



Mr. E.J. Hausman

4 September 1957

I do not know where the resolution of this particular problem stands, however, Khashoggi's idea is not a bad one and we could come to some tacit arrangement with him that if we submit the invoice as he suggests, there will be no payment to him until such time as the invoices are paid.

Please be advised we will do nothing further until we hear from you which we hope will be soon.

Regards,

A.O. Otsea

c.c. P.J. Case
R. Williams
L.T. Barrow
A.W. Shuman

Distribution: E.J. Hausman: dap: 9-8-67

D. T. Crockett, Jr.
W. S. Hilburn ✓
G. W. Thompson
P. Walter/J.P. Gilbert
J. H. Wilkerson

LOCKHEED-GEORGIA COMPANY
 DIVISION OF LOCKHEED AIRCRAFT CORPORATION
 INTERDEPARTMENTAL COMMUNICATION

DEPT.

ZONE

DATE October 24, 1967

FROM C. E. Eaton

DEPT. 69-21

ZONE 24

EXT. 5826

SUBJECT: TRIAD FINANCIAL ESTABLISHMENT

APPROVALS: C. de Badts

C. M. Jackman

A. J. Jansen

J. H. Wilkerson

D. T. CROCKETT

OCT 25 1967

Attached for your review, approval and/or comments is draft Consultant Agreement for subject party together with three (3) side letters. Concept of documents is as follows:

1. Provide Koshoggi, through his corporation, TRIAD, the same compensation he would have received under the ALNASR agreements had the last Saudi sale (made pursuant to GLX-160 between LAC and Saudi) been between LAIAG and Saudi.
2. Provide TRIAD with coverage on future sales made in Saudi Arabia by LAC.
3. TRIAD documents follow same pattern as ALNASR documents to preclude necessity of extended negotiations and to satisfy Koshoggi's personal need for several documents in lieu of one, however. Paragraphs 2 through 8 of the Consultant Agreement are Lockheed standard language and differ in several respects from the ALNASR agreement.

A copy of these documents and this memorandum is being forwarded to Corlac for their review and approval. Legal has reviewed and approved these documents.

CEE:pmc

D. T. Crockett, Jr.

C. E. Eaton
 C. E. Eaton

D. T. CROCKETT

CONSULTANT AGREEMENT

THIS AGREEMENT is entered into as of the 1st day of September, 1967, by and between LOCKHEED AIRCRAFT CORPORATION, a California corporation, acting on behalf of its division called the Lockheed-Georgia Company, with an office and place of business at Marietta, Georgia, U.S.A., (hereinafter called "Lockheed") and TRIAD FINANCIAL ESTABLISHMENT, a Lichtenstein corporation, with a mailing address of 2 Place du Port, Geneva, Switzerland (hereinafter called "Consultant"). The parties hereto agree as follows:

1. (a) In consideration of services, consisting of liaison assistance and counsel, furnished by Consultant to Lockheed with respect to direct sale by Lockheed to customers with their principal office and place of business in Saudi Arabia of such products and services herein described, Lockheed shall pay to Consultant compensation in accordance with the following rates:

<u>Product</u>	<u>Percentage of Selling Price</u>
New Model C-130 Military Airplanes	2%
New Commercial Hercules Airplanes	2%
New Commercial Hercules and Military C-130 Spare Parts and Ground Support Equipment	2%
New Model 1329 JetStar Airplanes	2%
New JetStar Spare Parts and Ground Support Equipment	2%

The above rates of compensation shall be based on the fly-away factory selling price of Airplanes and on the selling price of spare parts and ground support equipment in support of Airplanes, but excluding from such prices the following:

- (i) The effect of price escalation;
- (ii) The sales price (or if no sales price, the fair market value) of customer furnished equipment incorporated therein either as described in the contract specification or as otherwise identified;
- (iii) Any refunds made of said price; and
- (iv) Shipping Charges.

(b) The foregoing amounts shall constitute full and complete payment of all sums payable by Lockheed to Consultant in connection with said sales.

2. Payment hereunder shall be made upon completion of delivery of such Product except that if final payment of the sales price is to be made after completion of delivery and Lockheed does not have assurances satisfactory to it that final payment will be received Lockheed shall determine prior to the time of completion of delivery the manner in which, and any reduction in the amount which, Consultant shall be paid and shall notify Consultant thereof. Such manner and reduction in amount of payment by Lockheed to Consultant shall bear a reasonable relationship to receipt of payment by Lockheed. Such payment shall be directed to Consultant at the address set forth above or at such other address as Consultant specifies in writing.

3. All sums of money mentioned herein refer to lawful money of the United States of America, and all payments pursuant to this Agreement shall be made in such money.

4. Consultant shall act as an independent contractor in performing services hereunder and shall neither be, nor represent itself to be, an agent or an employee of Lockheed. Consultant may neither accept, approve nor execute any order or contract or other agreement on behalf of, or in the name of, Lockheed.

5. Consultant shall assume and discharge for its own account all costs and expenses incurred in connection with its activities pursuant to this Agreement.

6. Neither all nor part of this Agreement, nor monies due or becoming due to Consultant hereunder, may be assigned or transferred by Consultant without the prior written consent of Lockheed.

7. This written instrument constitutes the entire agreement between the parties and may not be varied, amended or supplemented except by written instrument executed by both parties concurrently with or after the execution of this Agreement. The laws of the State of Georgia in the United States of America shall govern the interpretation and construction of this Agreement.

8. The term of this Agreement shall commence as of September 1, 1967, and shall continue for a period of _____ thereafter unless this Agreement is extended by mutual agreement or terminated before then by either party upon _____ days' notice to the other party, given either by registered mail, cable or radiogram directed to the appropriate address set forth above or to such other address as may have been specified in writing. The termination of this Agreement shall not relieve Lockheed of its obligation to pay to Consultant sums pursuant to this Agreement if the contract of sale described in Paragraph 1 above is accepted and approved by Lockheed prior to such termination.

DRAFT

LOCKHEED AIRCRAFT CORPORATION (BURBANK) LETTERHEAD

September 1, 1967

Triad Financial Establishment
2 Place du Port
Geneva, Switzerland

Gentlemen:

In connection with your Consultant Agreement # _____, dated September 1, 1967, this will confirm our mutual understanding and agreement, supplementing the provisions of said Consultant Agreement. For convenience you will be referred to as "Consultant" and we will be referred to as "Lockheed."

1. Supplementing the provisions of Consultant Agreement # _____, Lockheed agrees that in the event of a direct sale by Lockheed to the Royal Saudi Air Force of new Lockheed Model C-130 Military Airplanes, spare parts and ground support equipment, Lockheed shall pay to Consultant additional compensation in accordance with the following rates:

<u>Product</u>	<u>Percentage of Sales Price</u>
New Model C-130 Military Airplanes	5%
New C-130 Military Spare Parts and Ground Support Equipment	13%

2. It is hereby agreed that the sales price to be used in computing the compensation payable Consultant by Lockheed with respect to the four (4) New Model C-130 Military Airplanes sold by Lockheed to the Royal Saudi Air Force, pursuant to the provisions of Contract GLX-160, dated September 11, 1967, is \$2,670,000.00.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LOCKHEED AIRCRAFT CORPORATION

By _____

TRIAD FINANCIAL ESTABLISHMENT

By _____

DRAFT-2

The above additional compensation will be paid in accordance with the terms and conditions described and set forth in Consultant Agreement # _____, dated September 1, 1967.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, will you please so indicate by signing in the space provided below.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By _____

THE FOREGOING CORRECTLY SETS FORTH
OUR MUTUAL UNDERSTANDING AND
AGREEMENT IN THE PREMISES:

TRIAD FINANCIAL ESTABLISHMENT

BY _____

DRAFT

LOCKHEED AIRCRAFT CORPORATION (BURBANK) LETTERHEAD #2

September 1, 1967

Triad Financial Establishment
2 Place du Port
Geneva, Switzerland

Gentlemen:

In connection with your Consultant Agreement # _____ and Letter Agreement # (1), dated September 1, 1967, this will confirm our mutual understanding and agreement which supplements the provisions of said Consultant and Letter Agreements. For convenience you will be referred to as "Consultant" and we will be referred to as "Lockheed."

In the event of a direct sale by Lockheed to the Royal Saudi Air Force of new Lockheed Model C-130 Military Airplanes as specifically described in Lockheed's proposed Contract GLX-160, to the Ministry of Defense and Aviation of the Kingdom of Saudi Arabia, Lockheed agrees to pay to Consultant upon completion of delivery and payment in full for each such Airplane, a special fee in the amount of FORTY-ONE THOUSAND DOLLARS (\$41,000.00) for each such airplane for which Lockheed is paid the full contract price of TWO MILLION SIX HUNDRED SEVENTY THOUSAND DOLLARS (\$2,670,000.00).

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, will you please so

DRAFT-2

indicate by signing in the space provided below.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By _____

THE FOREGOING CORRECTLY SETS FORTH
OUR MUTUAL UNDERSTANDING AND AGREE-
MENT IN THE PREMISES:

TRIAD FINANCIAL ESTABLISHMENT

By _____

DRAFT

LOCKHEED AIRCRAFT CORPORATION (BURBANK) LETTER HEAD

September 1, 1967

TRIAD Financial Establishment
 2 Place du Port
 Geneva, Switzerland

Gentlemen:

In connection with your Consultant Agreement # _____ dated September 1, 1967, this will confirm our mutual understanding and agreement, supplementing the provisions of said Consultant Agreement. For convenience, you will be referred to as "Consultant" and we will be referred to as "Lockheed."

1. Supplementing the provisions of Consultant Agreement # _____ Lockheed agrees that in the event of the sale by Lockheed of New Lockheed Commercial Hercules Airplanes and New Commercial Hercules spare parts and ground support equipment, Lockheed shall pay to Consultant additional compensation in accordance with the following rates:

<u>Product</u>	<u>Percentage of Sales Price</u>
New Commercial Hercules Airplanes	5%
New Commercial Hercules Spare Parts and Ground Support Equipment	6%

The above additional compensation will be paid in accordance with the terms and conditions described and set forth in

DRAFT-2

Consultant Agreement # _____, dated September 1, 1967.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, will you please so indicate by signing in the space provided below.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By _____

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

TRIAD FINANCIAL ESTABLISHMENT

By _____

LOCKHEED-GEORGIA CORP.
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO D. T. Crockett, Jr.



DEPT. 93-01 ZONE 32 DATE 16 May 1968

FROM T. J. Cleland

DEPT. 62-01 ZONE 508 EXT. 3111

SUBJECT: LAS/LAIAG/GELAC MEETING OF 30 APRIL 1968

The subject meeting was held at Gelac to discuss support programs and policies for Saudi Arabia and Zambia. A rather large group attended the introductory session, held in Conference Room "D" during the morning, and after lunch, the following personnel attended a meeting in which specific agreements were reached concerning the roles of LAS, LAIAG, and Gelac in supporting the customers noted above.

Attendees:	Tom Cleland	Pritch Pritchett (LAS)
	Max Helzel (LAS)	Sam Saliba
	Bill Hilburn	Bob Toms (LAI)
	Guy Mastin	Jim Wilkerson

Specific agreements were reached on (1) how the four-airplane spares package will be sold to Saudi Arabia, (2) how replenishment spares will be procured for Saudi Arabia, and (3) respective responsibilities of Gelac and LAS for payment of agent's commission.

The four-airplane spares package has been priced as though the spares will be sold directly from Gelac to Saudi Arabia. The total price is 8.5 million dollars and includes 15% for K. It was agreed in the meeting that the total package, as finally negotiated with the customer, will be sold from Gelac through LAIAG at no increase in price; however, we agreed to pay LAIAG in the form of a credit memorandum 4-1/2% of the package price to cover their handling cost.

Future replenishment orders will be handled by LAIAG with Saudi Arabia in accordance with their present contractual arrangements but on non-proprietary items (vendor items), LAIAG will give Gelac right of first-refusal prior to ordering such items directly from vendors. If Gelac has the required items in stock or on order for inventory, we will accept the order from LAIAG and will deliver the spares at our Saudi Arabian export price through LAIAG. LAIAG would not mark up such items to Saudi Arabia but would receive a 5% credit memorandum from Gelac to cover their handling cost.

In discussing Lockheed's latest "commitment" to our agent, it was agreed that Gelac will increase the price of proprietary items in the four-airplane spares package by a minimum of \$150,000 and that any liability Lockheed has in

J.H.W. ... *... That our Agent's Agreement ...*

C. T. J. Cleland to D. I. Crockett, Jr., dtd 16 May 1968
 Subject: LAS/LAIAG/Gelac Meeting of 30 April 1968

excess of this amount, after negotiations with the agent for a one-time package settlement, will be paid by LAS.

Since the meeting, we increased the price of proprietary items by 10% and were only able to pick up slightly over \$100,000, rather than the minimum of \$150,000 we were looking for. In addition, those items that were repriced "stuck out like a sore thumb" after the 10% was added and put us in a very vulnerable position by inviting the customer to reduce his requirements for such items. It was then decided that the total package of 5438 line items would be escalated by 3.8% in order to pick up just under \$300,000. The value of the spares package now equals \$8,771,998.27. Max Helzel and our Finance people have been advised of this latest approach which seems to be much better than the original repricing we attempted on proprietary items.

In addition to the above specific agreements, we discussed, at quite some length, the Zambia Program. Max Helzel agreed that when LAS negotiates a new contract with ZAC that they will attempt to incorporate into this contract a Lockheed Spare Parts Price List which will constitute the price of spares when bought from Lockheed regardless of whether they are bought from LAIAG or directly from Gelac. In other words, what we told Max we wanted was a standard Lockheed price for all export customers other than Saudi Arabia. In the case of Zambia replenishment spares, we would expect to have the same right of refusal for non-proprietary items; however, we would not issue credit memoranda for any Zambia spares orders placed by LAIAG with Gelac.

In summary, we feel that the meeting was most objective and productive. We think that the above agreements are in the mutual interest of LAS, LAIAG, and Gelac and represent a sound corporate position for the countries involved. Plans are to meet with Max Helzel, Harley Snyder and appropriate personnel from Saudi Arabia in Geneva during week of 20 May for preliminary discussions and agreements before proceeding to Jeddah to negotiate the final four-airplane spares package.


 • T. J. Cleland

TJC:mlb

cc: All Attendees
 M. F. Brown, Jr.
 W. J. Hall
 A. H. Lorch
 T. R. May
 J. H. McNabb
 R. D. Roche

CONFIDENTIALLOCKHEED AIRCRAFT SERVICE COMPANY
Interdepartmental CommunicationCONFIDENTIALTO: File
FROM: A. H. Kaplan

Date: 15 August 1968

The following is the narrative of a conversation between the undersigned, Abe Schutteveer and Harley Snyder on 15 August 1968 on Harley's trip to Saudi Arabia and the meeting with Adil. It is set forth here as it was related by Harley.

1. is completely disenchanted with Adnan Khoshoggi. He indicated that he never received the \$150,000 that was agreed to between Max, Adnan and during their Paris meeting last year. He further indicated a dislike of Adnan and said while he likes Adil he is unwilling to deal with him because of his distrust of Adnan.
2. At the moment all LAYAG programs are in the "deep freeze".
3. The GCA program has been committed to the U. K. and it is unlikely if at all possible that it can be changed. The reason for 2. and 3. is 1. above.
4. showed Harley his statements on total payments made to LAYAG. He said he cannot understand why Adnan says that he (Adnan) has not received any money in view of these payments. statement to Harley was that he feels Adnan is lying to him.
5. indicated that he was told by Adnan that Adnan is only getting 2% commission.
6. With regard to the proposed meeting between Holzel, Wood and is interested in it but it is extremely difficult for him to get out of the country. He received an invitation from an English firm to visit the Air Show and the King turned it down. He then received an invitation to visit the Air Show from the English government and this invitation is now on the King's desk for approval. In any event, it does not appear that he will be able to get out of the country prior to the Air Show, if at all. He is very willing to meet anybody at any time in Saudi Arabia.
7. Harley met with Adil Khoshoggi and discussed the results of Adil's meeting with (which was prior to Harley's meeting with in which all LAYAG programs were reviewed. Adil offered 1% commission. wants 2% which he wants on the execution of the contract or on the first draw against the Letter of Credit. Snyder told Adil that no matter how it was worked out, and if it was worked out, the money would come out of Triad's commission.

D. T. CROCKETT

8. Harley's feeling is that the GCA, JetStar, Program X and the helicopter program can only be loved if the money problem is straightened out.
9. Harley indicated that the relationship between Lockheed and _____ is very good. It is just the relationship between _____ and Khashoggi that is causing the trouble.
10. With regard to the spares program, _____ showed Harley a response to Max's letter which was written by the Director of Material. Although he did not let Harley read the letter he indicated that he _____ was returning the letter to tone it down. Harley then met with the Director of Material who indicated that he thought the overhead charges were too high, he did not understand why there was profit on the overhead nor why there was profit on insurance, transportation, etc. Harley explained to him why there should be profit on the overhead but indicated we would look into the profit on insurance, transportation, etc.
11. Harley then met with the Director of Operations on the JetStar effort. The feeling is that they did not like the price reduction approach nor did they approve of the way it was presented. They also did not like the fact that the King of their country was getting a lesser interior nor did they like the reduction in the logistics services and AGE and spares prices. They apparently are still looking for a price reduction in the aircraft although Harley had no indication of what this amount was. They also indicated they would from now on want straightforward presentations with no gimmickery. Harley indicated that the Director of Operations would like he (Harley) to accompany Crowe on any future presentations. Also, on the JetStar Program they indicated to Harley that the French proposal for three years on technical services was one-fifth less than the Lockheed proposal.

Harley indicated he has been informed from a good source that there is a good possibility that Khashoggi is also the agent for the French company on this proposal and that Georgia should certainly look into this.

12. Harley saw all of the officers on _____ staff and the indication was that they had no complaints on the C-130 operation and that it was going very well.



Alan H. Kaplan
Attorney

AMK:mdm

cc: E. Constable/R. Williams
T. Cleland/S. Saliba
D. Crockett
H. Egan
H. Helms
C. Otaca/H. Snyder
C. E. Price
R. Roche
D. O. Wood

JC
03 0000

PAR

C O N F 4 PERS 2 OFCS 9-6-68 /TEX PAR 6363/

R U S H

R U S H.

R U S H , , , , ,

MARC PAR 641/643

W.W. CONDEN

DEPT 69-50

B-2

MARIETTA

INFO R.D. POOME

69-01

B-2

MARIETTA

C. VALENTINE

B-2

MARIETTA

TEX PAR 6363

INFO H. SNYDER

LAI

GENEVA

CLOSURE

REFERENCE 6363

Santi Amalia Consistent

THE MILAN MEETING SET ^{Consultant} ~~FOR~~ FOURTH WITH ~~LOONEY~~ AND SNYDER

ADDRESSED ITSELF TO DELICATE AND STICKY ISSUES; ~~AND~~ AND IT IS

QUITE APPARENT THAT ^{Consultant} ~~LOONEY'S~~ PAST AND CURRENT PERFORMANCE IN KEEPING

HAPPY REMAINS EFFECTIVE, ~~STILL~~ REMEMBERING THAT

IS ONE OF THE KEY PEOPLE WE MUST SATISFY WITH NOT ONLY WHAT WE DO;

~~WE~~ BUT ALSO WITH HOW WE DO IT AND ~~WHEN~~ ["] WHO

WE SEND TO DO IT ["] ~~WHEN~~ ~~WHEN~~ LISTENING TO HIS ADVICE

PROMPTS ME SAYING THAT OUR CURRENT ^{LAC} ~~CONCERN~~ ABOUT DELAYS IN

FINAL CONTRACTING OF CERTAIN PENDING ORDERS DOES NOT APPEAR CLEARLY

AS DEFAULTING BY ^{Consultant} ~~LOONEY~~ ON THE ONE HAND OR ^{LAC} ~~LOONEY~~ ON THE OTHER, ~~STILL~~

IT IS REASONABLY CLEAR TO ME HOWEVER THAT WE NEED TO LOOK AT A

BETTER MARKETING WAY TO TAKE ADVANTAGE OF ~~OUR~~

^{Consultant} ~~LOONEY~~ AND HIS COMPANIES INFLUENCE AND CAPABILITIES ~~IN~~ IN

SOME INSTANCES UNIQUE FOR OUR PURPOSES, ~~STILL~~

^{LAC} ~~LOONEY~~ ^{Saudi Arabia} ~~LOONEY~~ IN ORDERING AT LOWEST AND HIGHEST

ALREADY ESTABLISHED WORKING RELATIONSHIPS BETWEEN ~~ZENYR~~ AND ~~SAUDI ARABIA~~

CERTAIN ~~OTHER~~ ^{LAC} PEOPLE; ~~AND~~ ^{SAUDI ARABIA} THESE PEOPLE BEING THOSE THE ~~ZENYR~~

THEMSELVES SINGLE OUT AS BEING THE MOST EFFECTIVE AND DESIRED -

FOR ~~CENYR~~ ^{LAC} TO USE IN ITS MARKETING ACTIVITIES IN ~~ZENYR~~ ^{SAUDI ARABIA} ~~SPY~~

^{Prima}

OFTEN STATED PERSONAL REGARD FOR ~~CENYR~~ ^{LAC} AND THOSE

CERTAIN ~~CENYR~~ ^{LAC} PEOPLE ~~AND~~ ^{SAUDI ARABIA} HIS DESIRE THAT ~~CENYR~~ ^{LAC} BE GIVEN

THAN EQUAL OPPORTUNITY TO WIN CONTRACTS) ~~AND~~

EXAMPLES: ~~CENYR~~ IN ADDITION TO HIS HAVING PERSONALLY KEPT DOOR

OPEN TO ~~CENYR~~ ^{SAUDI ARABIA} HE RECENTLY REOPENED ANOTHER PROJECT ~~AND~~

HIS COMMITTEE WANTED TO AWARD TO AN OTHER COUNTRY ~~AND~~ TO PERMIT

~~CENYR~~ ^{LAC} TO HAVE AN OTHER CHANCE ~~AND~~ AND IN BOTH INSTANCES OUR

^{Consistent}

~~WAS~~ WAS CLEARLY FULFILLING HIS ROLE) ~~AND~~ ^{SAUDI ARABIA}

^I

WE FEEL ~~CENYR~~ ^{LAC} CAN DO BUSINESS THE ~~RIGHT~~ ^{SAUDI ARABIA} WAY AND AT SAME TIME

MAINTAIN DIVISION RESPONSIBILITIES FOR THEIR PRODUCT AND SERVICES

SALES ~~AND~~ THE MACHINERY TO DO THIS IS PARTLY IN BEING ~~AND~~ ^{SAUDI ARABIA}

TICKED ITEMS ^{A.} ~~AND~~ ^{B.} ~~THROUGH~~ ~~DECREASE~~ PLUS MAKE MORE ~~CURE~~ AND OPTIMUM

THE PROFITS TO BE REALIZED AND AT SAME TIME MAKE LESS AGONIZING THE

Saudi Arabia
OBTAINING OF FUTURE ~~ZEPHYR~~ BUSINESS WHICH IS NOT LIMITED BY ~~THE~~ ^a

GOOD MARGIN TO DEFENSE HARDWARE AND SERVICES, ~~STOP~~

THE FOREGOING THOUGHTS ARE JUST THAT AND NOT INTENDED AS AYE ^a

WHITE ~~PAPER~~ (OR EVEN DIRTY CREAM) ~~END~~ PAPER END

JACKMAN/PARIS

4P1850

Meeting - Geneva Switzerland - 9/11/68

D.O. WOOD

S. SHIRA

A.G. OTSEA

G.E. PRICE

M. HELZEL

W.W. COUDEN

M.H. GREENE

C.M. JACKMAN

C.M. VALENTINE

1. will not contest present prices? (Dennis present raised up)
2. was paid \$1500 in 1/6/68 =
3. has deal with K for 2% of sale price to Dr. Bio part =
4. wants meeting in S.H. re Appear with HS. SS - AS. - M.H. & Co. in later. hopes to settle quantity and price re delivery can be made with K
5. wants HS. to participate in future sales presentation -

1. Potential Kline proposition - sell to LKS - at domestic list price -
2. Dave wants to split profit 50-50 -
3. At sale price of \$11.50 = Sale 137.50 = LK 1146 6 1/2 = K - 6 1/2
4. Still in the air -
5. Meeting Geneva office LKS - 8:00 AM with K - at 10:00 AM -

59 120 780

Orig Budget figure did include 15% ± 20% - cost - therefore we cannot
 change to fixed without penetrating entire sale or reducing profit -
 however the latter would be better price

We offered L.A.S. to sell to L.A.S.-ny at domestic price.
 But D.M. wanted to split "technical" profit 50-50 - so planning itself.
 D.M. + G.E.P. coming for S.A. for in fact on other subjects.
 Some talk about John Latham - H. Snyder - Mr. John Latham
 going "as a team" to discuss prices with haz-wanants
 with S.A.R.A.F. - we won't know until after tomorrow
 after meeting with K. whether this is practical.

\$ 3.94 → \$ 4.34

15% Planning figure

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO: W. W. Gordon

DEPT. 69-50 ZONE 1 DATE 25 November 1969

FROM: J. A. Davidson

DEPT. 69-52 ZONE 11 EXT. 7766

SUBJECT: SAUDI ARABIAN CONTRACTS REGULATION

A decree by the Saudi Arabian Council of Ministers requires a clause in all contracts specifying that no agent has been paid to secure the sale of the equipment in question. This decree further specifies that if any agent fees have been paid, the price to the Kingdom must be reduced by a corresponding amount.

It is my understanding that LAS has accepted this as a necessary part of the risk in doing business in Saudi Arabia. They have signed, and are now negotiating to sign, contracts with such a statement included, but with full intention of paying our representative his usual fees. I have also been told that L&I is in process of negotiating a contract which will have the same clause, with the intention of paying our representative for his services and ignoring the subject clause.

It is my recommendation that our initial contract submittal be patterned after GLX-169 and not include such a clause. Our failure to include the clause may possibly go unchallenged, with proper ground work, and at worst can be made to appear simply an oversight on our part. Should it become necessary during the negotiations to include this clause, I recommend we do so and adopt the same position as is now used by LAS and L&I.

Formulation of a position on this matter is urgent, as too much hesitation on our part, should the subject be raised during negotiations, could create a very awkward situation.

J. A. Davidson
J. A. Davidson

JAD:mpw

cc: D. T. Crockett, Jr.
G. M. Kalsbor
N. C. Riddings
R. D. Roche
C. H. Valentine
Saudi - 3
3.9.1

LOCKHEED PRIVATE DATA

MEMORANDUM

TO E. M. Constable / D. O. Wood

DEPT.

DATE 2 December 1969

FROM H. W. Paul / E. H. Schattenberg

DEPT.

SUBJECT: SELECTION OF ENTITY TO HANDLE
TRANSACTION WITH ADNAN M. KHASHOGGI*Adnan Khashoggi agent*

At a meeting at LAI on 2 December 1969 between J. W. Clutter, A. B. Smith and the writers, consideration was given to the use of LAC and each of its subsidiaries (first tier and second tier) as possible entities to use in connection with retaining Adnan Khashoggi as a marketing consultant.

It is the recommendation of the writers (and was the general agreement of the group) that the most satisfactory arrangement possible, all factors considered, would be to use Lockheed Aircraft International, Inc. (LAI) as the appropriate entity.

Mechanically, LAIAC would enter into a written contract with LAI calling for administrative and marketing services to be rendered by LAI to LAIAC in connection with Saudi Arabia, and LAIAC would pay LAI amounts for such services determined by a formula related to sales of certain types of products to the Saudi Arabian Government, or in Saudi Arabia generally. The agreement would provide for a listing of products covered by it and would not specify the precise nature of the administrative and marketing services required, leaving that for LAI to determine in its best judgment, subject to the agreement of LAIAC.

The second half of the mechanical arrangement would consist of an agreement between LAI and TRIAD FINANCIAL ESTABLISHMENT, Vaduz, Liechtenstein (Khashoggi) pursuant to which LAI would purchase a variety of marketing services from TRIAD and would pay TRIAD for these services in accordance with the same formula as used in the LAIAC/LAI agreement described in the preceding paragraph. This agreement might call for the rendition by TRIAD to LAI of services identical to those rendered by LAI to LAIAC, or might call for somewhat less extensive services, contemplating the rendering of additional services by LAI using its own facilities and people. Both agreements would presumably (by product listing) cover all contemplated Saudi Arabian sales not specifically reserved to LAC (examples of the latter being the sale of aircraft), but the breadth of product coverage would ultimately be up to the persons negotiating with Khashoggi.

The anticipated result of the foregoing arrangement would be that LAIAC would be able to deduct for book purposes (as cost of Saudi Arabian sales) the

O R A N D U M

E. M. Constable, U. O. Wood

LOCKED PRIVATE DATA

2 December 1969

entire payment made by it to LAI, and that this deduction would reduce the profit appearing on LAIAG books from the Saudi Arabian contracts. It is anticipated that Arthur Young & Company, in auditing LAIAG's books (the certified audit required to be turned over to the Saudi Arabian Government) would agree to this deduction. It is anticipated that the Swiss Government would agree to this deduction in full for tax purposes (but even if the deduction were disallowed in part, the result would be a corporate tax on LAIAG of only 15% on the disallowed amount).

It is anticipated that the payments by LAIAG to LAI would constitute income to LAI, for book and U. S. tax purposes, and it is anticipated that this income would be offset for both purposes by equal deductions for the equal payments to TRIAD.

It is contemplated that the agreements would be drawn to be executed before the end of 1969, to be effective as of January 1, 1969, and that all internal bookkeeping transactions by LAS, etc., would be brought into line with the agreements for calendar 1969. (It is recommended that the agreements be executed before January 1, 1970, to avoid the contention by any tax authority that the agreements were set-up retroactively to obtain a tax result which was decided upon after the fact. It is questionable whether such an argument would be of much force but it would seem desirable to avoid giving grounds for such an argument.)


H. W. Paul


E. H. Schattenberg

cc: J. W. Clutter

00202

/77-

RELAY TO MAX HELZEL

(LAS ONT.)

DERNING THE FIGHTER MATTER EYE HAVE THE FOLLOWING OBSERVATIONS
RECOMMENDATIONS:

- TRIAD IS SATISFIED WITH THE MARKETING FEE THAT YOU HAVE
GRAMMED FOR TRIAD IN YOUR OFFER TO THE PRIME. HOWEVER,
REGRET YOUR FAILURE TO COORDINATE THIS WITH US BEFORE THE
IT AS THE FAILURE TO PROVIDE PROPER COVERAGE FOR THE TWO
CONSULTANTS WILL RESULT IN THEIR CONSIDERABLE DISAPPOINTMENT,
A POTENTIAL DAMAGE TO OVER-ALL LOCKHEED POSITION.

- IT IS OUR RECOMMENDATION, WHICH HAS ALREADY BEEN EXPRESSED
HARLEY THIS MORNING, THAT A TOTAL OF FOUR BE MADE AVAILABLE
CONSULTANTS WHICH FOUR WILL BE ADDITIONAL TO WHAT YOU HAVE
READY PROGRAMMED FOR TRIAD. PLEASE BEAR IN MIND THAT EXPECTATIONS
BE RAISED IN U.S. MEETING AND YOU MUST ATTEMPT TO SATISFY
AS BEST YOU CAN FOR LOCKHEED'S SAKE.

REGARDLESS OF YOUR DECISION ON OUR RECOMMENDATION ABOVE
ADDITIONAL WILL GIVE YOU FULL SUPPORT. WE WISH YOU SUCCESS
YOUR DISCUSSIONS WITH PRIME.

BARBS
CAN

TRICORP BEYROUT

RECEIVED

MAR 3 1972

4531L

115-

FIRM CONTRACT 5 AIRPLANES

1, 18, 1

Contract Price	\$21,373,863
Gelac Net	<u>19,158,000</u>
Balance	\$ 2,219,863
Commission	<u>1,656,000</u>
Balance after Commission	\$ 563,863
Special Fee on firm 6 Aircraft Purchase	\$ 600,000
Gelac contribution	\$563,868
Triad contribution	<u>36,132</u>
Total	\$600,000

FIRM CONTRACT 2 AIRPLANES, OPTION 4 AIRPLANES

Contract Price, 2 Aircraft '70	\$ 7,072,956
Gelac Net	<u>6,248,000</u>
Balance	\$ 824,956
Commission	<u>552,000</u>
Balance	\$ 272,956
Paid to Triad for application to \$100,000 per aircraft special assessment	<u>200,000</u>
Balance to Triad for payment against \$400,000	\$ 72,956
Contract Price, 4 Option Aircraft '71	\$14,455,912
Gelac Net	<u>13,316,000</u>
Balance	\$ 1,139,912
Commission	<u>1,104,000</u>
Balance paid to Triad for application to remainder of \$400,000	\$ 35,912
Total toward \$400,000:	\$ 72,956
	<u>35,912</u>
	\$103,868

It is agreed that the above summary of disbursements supercedes all prior arrangements and represents the disbursement and compensation arrangements agreed to between Lockheed-Georgia Company and Triad of contract GLX-194 as executed on one of the above premises.

*See Paris Agreement dated 21 January 1970 reference \$400,000
Date: 5/10/70 Lockheed-Georgia Company by: *[Signature]*

Date:

Triad by: *[Signature]*

February 17, 1970

Tried Financial Establishment
2 Place du Fort
Geneva, Switzerland

Attention: Mr. Gerard-Boissier

Gentlemen:

As requested by Mr. Khachoggi, here is an accounting of commissions paid Tried by Lockheed relative to contracts GLX-150 and GLX-28 between Lockheed-Georgia Company and the Kingdom of Saudi Arabia.

Contract GLX-150 (Agreements H53-28, H53-31, H53-32, and G53-265L)

<u>Sales Value</u>	<u>Commission Paid</u>	<u>Date Paid</u>
\$1,030,000.00	\$ 56,730.00	02-15-63
2,030,000.00	105,000.00	11-19-63
Flat Rate	123,000.00	12-05-63
Flat Rate	41,000.00	01-23-69
Flat Rate	<u>559,800.00</u>	03-10-69
	<u>\$811,600.00</u>	

Contract GLX-28 (Agreement GL53-392L)

Flat Rate	<u>\$120,000.00</u>	12-31-69
-----------	---------------------	----------

sales of airplanes only, have been made under these contracts, and the above commissions relate only to such sales, in accordance with the applicable agreements. Any questions you may have concerning commissions on sales other than airplane sales should be directed to Lockheed Aircraft International, A. G. I suggest that you contact Mr. David R. Cowan, Lockheed Aircraft International, A. G., 1 Place Longeville, Geneva, Switzerland.



I hope that the above provides the information requested. If we can assist you further, please let me know.

Yours very truly,

LOCKHEED-GEORGIA COMPANY

~~ORIGINAL SIGNATURE~~
~~DATE~~

J. F. Johnston
Manager
Finance Department

JFJ/GHJ:se

bcc: Frank Murphy, Contracts

Geneva, Switzerland
September 16, 1970

Mr. Max Helzel
International Marketing Director
- Lockheed Aircraft Service Company
Ontario, California

Dear Max:

Reference is made to our discussions earlier this month concerning our request that Lockheed:

- (1) provide a method by which Triad may secure firm deposits for anticipated fees to be earned under existing Lockheed contracts with the R.S.A.F.;
- (2) provide \$400,000 of additional compensation to Triad under its present contracts with Lockheed. Such compensation is requested on the basis that Triad has incurred unforeseen additional direct costs and administrative overhead, all of which were required in connection with Triad's performance under existing contracts.

I will appreciate your early consideration of this request.

Kindest regards.

Very truly yours,

Adnan M. Khashoggi

AMK:e1

21 October 1970

GLD-394

Triad Financial Establishment
Vaduz, Liechtenstein

Gentlemen:

Subject: PRODUCTS AGREEMENT - LOCKHEED-GEORGIA
COMPANY

1. In connection with ^{MARKETING} Representation Agreement No. GLD-393 between us, dated 10 October 1970, this will confirm our mutual understanding and agreement, supplementing the provisions of said Representation Agreement.

2. The new products with respect to the sale of which you shall be compensated by the division of Lockheed Aircraft Corporation known as the Lockheed-Georgia Company (hereinafter called "Gelac"), the rates of compensation and the conditions, in addition to those set forth in said Representation Agreement, under which compensation shall be paid are set forth hereinbelow.

3. PRODUCTS

- (a) Current Production Models of Lockheed Aircraft Corporation Military C-130 Hercules Aircraft;
- (b) Current Production Models of Lockheed Aircraft Corporation Model 1329 JetStar Aircraft.

4. BASIC RATES OF COMPENSATION

Subject to the conditions set forth herein and in ^{MARKETING} Representation Agreement No. GLD-393, Gelac shall pay compensation under this Products Agreement only on products covered under Paragraph 3 above in accordance with the following basic rates:

Triad Financial Establishment

GLD-394
Page 2

(a) On sales of new current Production Model 1329 JetStar Aircraft compensation shall be two percent (2 %) of the Contract sales price for such aircraft.

(b) On the sale of two (2) C-130 Military Aircraft to the Kingdom of Saudi Arabia under Contract No. GLX-194, compensation shall be the fixed amount of \$376,000.00 for each of said two (2) aircraft sold thereunder.

(c) On the sale of any additional new current Production Model C-130 Military Aircraft made subsequent to the sale under Contract No. GLX-194 referred to in Paragraph 4.(b) above, compensation shall be as follows:

On Direct Sales - Seven percent (7 %) of the Contract sales price for such aircraft plus \$41,000.00 per aircraft.

On M.A.S. Sales - One percent (1 %) of Contract sales price for such aircraft.

5. If the foregoing correctly sets forth our mutual understanding and agreement in the premises, will you please so indicate by signing in the space provided below and by returning to us both copies of this Products Agreement.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By _____

The foregoing correctly sets forth our mutual understanding and agreement in the premises:

Dated as of 11/5/70

TRIAD FINANCIAL ESTABLISHMENT

By William P. L. L. L.
William P. L. L. L.

November 19, 1970

MEMO TO FILE

Subject: TRIAD - SPECIAL ADJUSTMENT RE SALE OF TWO (2) C-130H
AIRCRAFT TO SAUDI ARABIA

All of the early Products Agreements prepared by Morton MacLeod's law firm included some language concerning subject special adjustment of \$400,000.00 versus the \$72,956.00 amount Gelac was to pay to Triad in connection with the sale of two (2) C-130Hs to Saudi Arabia (to be delivered in December 1970). This subject was discussed at length with Roger Godwin when he visited Gelac in October for face to face negotiations of our Representation Agreement and Products Agreement with Triad. It was obvious at that time that because this arrangement was made between Cowden and Khashoggi that only these two men could straighten out the dilemma. As a result it was agreed that any reference to this special adjustment would be deleted from the Products Agreement at this time.

Consensus at Gelac is that we should pay the \$72,956.00 special adjustment as a result of the sale of the two C-130Hs but that because of no follow-on procurement the remainder of the \$400,000.00 would not be paid by Gelac but should be assumed by LAI in accordance with agreements with Earl Constable. Charles Valentine discussed this subject with Cowden today and Bill agreed with us that the final Marketing Agreement and Products Agreement sans any reference to the \$72,956.00/\$400,000.00 special adjustment should be routed for approval and executed as is without making an issue of the fact that we do not have an agreement on the special adjustment. Cowden also agreed this will still have to be worked out but should be done as a side arrangement at some future date and certainly before we pay the \$72,956.00 to Triad.


P. L. Martin

PLM:sh

cc: G. E. Mastin

December 22, 1970

MEMO TO FILE

SUBJECT: RECAPITULATION OF PRICE/COMMISSION UNDER GLX-194

The total contract price of GLX-194 was \$7,072,956. This price included the following:

Basic airplane price per aircraft	\$3,060,000
Saudi peculiarities per aircraft	52,000
Delivery cost per aircraft	<u>12,000</u>
Total price per aircraft	\$3,124,000 . . . or a net to
Gelac price for the two aircraft of	\$6,248,000

The difference between the contract price of \$7,072,956 and the net-to-Gelac price of \$6,248,000, amounting to \$824,956, was agreed to as follows:

Basic commission per aircraft	\$276,000
Special one-time only commission per aircraft	100,000 . . . for a total
commission for two aircraft of	<u>\$752,000</u>

The net of \$72,956 remaining out of the \$824,956 was to be paid to Triad on the condition that such payment would discharge any future liability of the Lockheed-Georgia Company with regard to the \$400,000 special adjustment claimed by Triad in connection with a prior sale. In this regard, see IDC of W. W. Cowden to C. M. Valentine dated October 12, 1970, subject: Triad - Meeting with Adnan Khashoggi.

Total commission of \$752,000 has now been paid, \$150,000 by cable transfer to Triad on October 7, 1970, and \$602,000 by check sent registered airmail on December 18, 1970. The balance of \$72,956 will be paid when all concerned at Gelac are satisfied that we are either relieved of any further liability for the balance of the \$400,000 (\$327,044) or that we are never going to resolve the problem and decide to go ahead and pay Triad anyway. In the latter event, we should at least get Bill Cowden's concurrence in such course of action.

C. M. Valentine

C.C. to Tom Stausloff (3/12/72)

TRIAD FINANCIAL ESTABLISHMENT

VADUZ - LIECHTENSTEIN

Geneva, February 4, 1971

LOCKHEED AIRCRAFT SERVICE COMPANY
P. O. Box 33ONTARIO / California 91764

LA 3-Med-38

Attention Mr. M. H. Greene.

Gentlemen,

Pursuant to provisions of Marketing Agreement LAC-T-100, dated January 1, 1969, between Triad Financial Establishment and Lockheed Aircraft Corporation, by its division Lockheed Aircraft Service Company, kindly be advised that the undersigned duly authorized representative of Triad Financial Establishment does hereby irrevocably instruct you to pay a portion of the payments to become due and payable after February 1, 1971 under Product Agreement LAS-T-3 and LAS-T-4, of Marketing Agreement LAC-T-100, to Credit Suisse Bank, for deposit in account No. 394.124 of "Lauvier Establishment". That portion to be so paid is to be computed in accordance with the attached schedule up to a maximum of U. S. \$490.959.

Kindly inform said bank that the foregoing instruction has been received and confirmed and that payment will be made in accordance therewith.

Very truly yours,

TRIAD FINANCIAL ESTABLISHMENT

BY: 

Schedule 1TRIAD / LOCKHEED ASSIGNMENTPercentages

- | | | |
|----|---|--|
| 1) | New C-130 / JETSTAR (T-3)
spares, special equipment
and age | 2% of GELAC vendor invoices
5% of other vendor invoices |
| 2) | Like new / surplus (T-3)
C-130 / JETSTAR spares | 5% of vendor invoices |
| 3) | Component overhaul (T-3) | 5% of vendor invoices |
| 4) | Eng. overhaul and mod. (T-3) | 5% of vendor invoices |
| 5) | C-130 MTUS (T-4) | 4.05% of vendor invoices |

TRIAD FINANCIAL ESTABLISHMENT

VADUZ - LIECHTENSTEIN

Geneva, February 4, 1971

LOCKHEED AIRCRAFT SERVICE COMPANY
P. O. Box 33

ONTARIO / California 91764

Attention Mr. M. H. Greene.

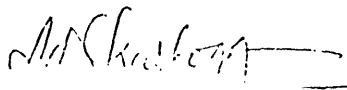
Gentlemen,

Pursuant to provisions of Marketing Agreement LAC-T-100, dated January 1, 1969, between Triad Financial Establishment and Lockheed Aircraft Corporation, by its division Lockheed Aircraft Service Company, kindly by advised that the undersigned duly authorized representative of Triad Financial Establishment does hereby irrevocably instruct you to pay a portion of the payments to become due and payable after February 1, 1971 under Product Agreement LAS-T-4 of Marketing Agreement LAC-T-100 to Credit Suisse Bank, for deposit in account No. 394.124 of "Lauvier Establishment". That portion to be so paid is to be U. S. \$250.000. - for the sale. This dollar amount is based on a sales price of U. S. \$1.537.133. You will receive further instructions revising the fixed amount in the event that the final agreed upon sales price differs from that set forth above.

Kindly inform said bank that the foregoing instruction ~~has~~ been received and confirmed and that payment will be made in accordance therewith.

Very truly yours,

TRIAD FINANCIAL ESTABLISHMENT



MEMORANDUM TO FILE

March 9, 1971

In a telephone conversation today with Jack Davidson in Geneva, he reported the following on his meeting with [redacted] in Riyadh regarding the possible purchase of additional C-130's by the RSAF.

[redacted] stated that if the purchase went forward, then he wished to utilize an LAIAG contract. Davidson advised [redacted] that additional evaluation and discussions would be necessary before any decision could be made on that point. Subsequently Davidson called our agent, Khashoggi, to inquire if he knew why [redacted] wanted to utilize an LAIAG contract. Khashoggi stated that in a recent meeting between him, Max Helzel, D. C. Woods and [redacted], arrangements had been made and agreed to which would provide for [redacted]'s share of commissions earned by Triad being paid direct into a Liechtenstein corporation.

Khashoggi stated that he is flexible on the type of contract we would want - - Direct Contract Gelac with Saudi Government, or LAIAG Contract with Saudi Government. Under a direct Gelac/Saudi Government contract, Adnan says he would be willing to enter a side agreement authorizing us to pay [redacted]'s share direct to the Liechtenstein corporation.


N. C. Ridings

NCR:ma

cc: ✓ W. W. Cowden
A1.19.1
A6.1.1

LOCKHEED AIRCRAFT SERVICE COMPANY

INTERDEPARTMENTAL COMMUNICATION

TO: C. H. VALENTINE, GELAC DEPT. 85-02 BLOS. PLANT DATE APRIL 7, 1971

FROM: M. H. GREENE, LAS DEPT. 0-105 BLOS. 10 PLANT ONT. EXT. 605

SUBJECT:

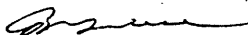
Attached is a copy of the set of letters which we created to use in facilitating the payment of certain of the commissions due TRIAD. As you can see, it is an assignment by TRIAD of monies due from Lockheed to them. However, in view of the circumstances, we actually developed the letters and carried out all the necessary third party discussions.

It took approximately three weeks to fully conclude this arrangement. Therefore, many aspects of the wording are critical and if you have any questions regarding it, I would appreciate very much your calling me.

One critical point is that arrangements have been made providing that all correspondence to Lauvier Establishment, such as the attached letter identified in the upper right hand corner as LAU-2, will be signed only by me. It is imperative that this part of the arrangement be adhered to even if someone other than LAS is using this vehicle.

We have created a separate set of these letters for each Product Agreement that has been issued under our Marketing Agreement and under which TRIAD is required to handle a portion of their commission in this manner.

Charlie, I am sure that you understand completely the sensitivity of this thing and while we certainly have no objection whatsoever with other Lockheed companies using this particular vehicle, it must be stressed that it will be necessary for LAS to participate and actually handle at least part of the other company's arrangement.



M. H. GREENE

MHG:md
attachments

9 February 1971

TRIAD FINANCIAL ESTABLISHMENT
2, Place du Port
1204 Geneva

Gentlemen,

We acknowledge receipt of your letter of February 4, 1971 regarding payments under Product Agreement LAS-T-2 and hereby advise you that we will follow your instructions contained therein.

Our acquiescence of your instructions is done as an accommodation and no change in legal relationship as created in Agreement LAC-T-100 is effected or intended hereby.

Yours truly,

LOCKHEED AIRCRAFT CORPORATION
by its division
LOCKHEED AIRCRAFT SERVICE COMPANY


M.H. Greene

LOCKHEED AIRCRAFT SERVICE COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
 27000 INTERNATIONAL AVENUE, FORT WORTH, CALIFORNIA 91264
 P. O. BOX 33

10 February 1971

CREDIT SUISSE
 2, Place Bel-Air
 1200 Geneva
 Switzerland

Attention: Mr. O. Paschoud

Gentlemen,

We have received instructions dated 4 February, 1971
 from a company with which we have certain agreements.

This letter is to advise you that certain amounts to
 become due from us under Agreement LAS-T-2 will be
 paid into account No. 394,124 of Lauvier Establishment
 in your bank.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION
 by its Division
 LOCKHEED AIRCRAFT SERVICE COMPANY

By: 

M.H. Greene

LAU-2



LOCKHEED AIRCRAFT SERVICE COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
ONTARIO INTERNATIONAL AIRPORT - ONTARIO, CALIFORNIA 91764
P. O. BOX 33

February 9, 1971

Lauvier Establishment
26 Hauptstrasse
Vaduz / Liechtenstein

Gentlemen,

This is to advise you that from date hereof through 15 February, 1974 our company is making an irrevocable commitment to pay to your account those certain amounts to become due from us under an Agreement called LAS-T-2.

The sums to be paid to you will amount to 3.856% of all man month billings which are invoiced by Lockheed Aircraft International A.G., Geneva, Switzerland, under its contract LAIAG/1101, Amendment 10, against letter of credit established in Morgan Guaranty Trust Company, New York (L/C No.2037). Amounts to be paid over to your pursuant to the foregoing shall not exceed US\$285,328.

We shall deposit the amounts in your account No. 394124 in Crédit Suisse, 2 Place Bel-Air, Geneva.

Yours truly,

LOCKHEED AIRCRAFT CORPORATION
by its Division
LOCKHEED AIRCRAFT SERVICE COMPANY

By: 

W.H. Greene

TRIAD FINANCIAL ESTABLISHMENT

VADUZ - LIECHTENSTEIN

Geneva, February 4, 1971

LOCKHEED AIRCRAFT SERVICE COMPANY
P. O. Box 33ONTARIO / California 91764Attention Mr. M. H. Greene.

Gentlemen,

Pursuant to provisions of Marketing Agreement LAC-T-100, dated January 1, 1969, between Triad Financial Establishment and Lockheed Aircraft Corporation, by its division Lockheed Aircraft Service Company, kindly be advised that the undersigned duly authorized representative of Triad Financial Establishment does hereby irrevocably instruct you to pay a portion of the payments to become due and payable after February 1, 1971 under Product Agreement LAS-T-2 of Marketing Agreement LAC-T-100 to Credit Suisse Bank, for deposit in Account No. 394.124 of "Lauvier Establishment". That portion to be so paid is to be 3.856% of the man month rate up to U. S. \$285.328. --

Kindly inform said bank that the foregoing instruction has been received and confirmed and that payment will be made in accordance therewith.

Very truly yours,

TRIAD FINANCIAL ESTABLISHMENT

BY: 

LOCKHEED AIRCRAFT CORPORATION
MARIETTA, GEORGIA, U. S. A.

COPY OF
INCOMING TELEGRAM

To: N. C. RIDINGS 69-51
cc: COWDEN 69-53

JD7A

Received 3/1/71
From Riyadh, Saudi Arabia

TODAY PRESENTED C-130 PROPOSALS TO SAUDI ARABIA AIR FORCE COMMANDER. DURING EXTENDED DISCUSSION INFILIGHT REFUELER APPEARED TO BE PRINCIPAL CONCERN. I WAS ALSO ASKED TO USE LAIAC CONTRACT FOR REASONS WHICH RELATE TO JD26A. (**) I REPLIED THAT ADDITIONAL EVALUATION AND DISCUSSION WOULD BE NECESSARY BEFORE ANY DECISION ON THAT POINT. ADDITIONAL MEETING SET FOR TOMORROW.

DAVIDSON

JD26A. REQUIR DISCUSSION ON SAUDI ARABIA COMMISSION, PARTING WORDS FROM ADNAN KHASHOGGI WERE THAT MODIFICATION PROPOSAL WOULD NOT SELL FOR LESS THAN 15% COMMISSION. THAT MAY BE TRUE, HOWEVER I HAVE REASON TO BELIEVE _____ MAY ASK PAYOFF DIRECT FROM CELAC WITH COMPLAINT PAYMENTS HAVE BEEN DELAYED FROM KHASHOGGI. SUGGEST WE GET UP TO DATE LOOK AT ON SCENE SITUATION BEFORE AGREEING TO DEMAND FOR HIGH COMMISSION, EVEN THOUGH THIS MAY MEAN WITHHOLDING MCD PROPOSAL FOR TIME BEING.

DAVIDSON

Distribution:

W. W. Cowden
P. F. Dobbins
C. C. Leubacher
C. M. Valentine
A1.19.1
A1.19.9
A1.19.1

DIRECTOR

LOCKHEED PRIVATE DATA

December 6, 1971

Mr. Louis J. Leuler
 Triad Corporation
 P. O. Box 4934
 Beirut, Lebanon

Reference: Your letter to Mr. N. Ridings, dated November 12, 1971

Dear Mr. Leuler:

As Mr. Ridings and I discussed with you after our visit to Saudi Arabia, the price on Galax proposal 71-607, dated 8 November 1971, was changed to reflect the price increase you suggested. In this proposal the consultant fee is now calculated at 15% of the proposal price.

Action is also in process to increase the proposed price on Galax proposal 71-2712, dated 8 November 1971, by \$100,000.00 per aircraft. In past negotiations with the customer it has become necessary to make major price concessions in proposals of this type. These price reductions have resulted in a loss of profit for Galax and the \$100,000 increase is included in this proposal as a contingency against this situation recurring. This higher price will provide a basis for negotiating with the customer, and does not change our current agreement with your company. As you suggested in your letter, such negotiations will probably be of vital importance in marketing this proposed program.

We are looking forward to working with you on these programs.

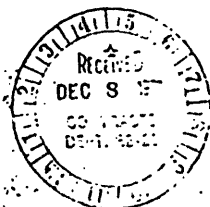
Best regards,

J. E. Walden
 J. E. Walden

JEW:mo

cc: W. W. Cowden
 N. C. Ridings
 ✓ P. L. Martin
 A6.7.1
 A1.5.1

LOCKHEED PRIVATE DATA



1-18-72
Rex. (112)

PRICE BREAKOUT - 4 C-130H's RSAF file

PROPOSAL PRICE:

1974 DELIVERY 5,710,975
 " " 5,710,975
 6,133,776
6,133,776

TOTAL PROPOSAL PRICE 23,689,502

MINUS \$200K/L NEGOTIATION 800 000

22,889,502

MINUS 8% COMMISSION - 1,831,160

21,058,342

MINUS \$4,000/AC FEE - 164,000

20,894,342

CONSTRUCTION (DCBT) - 271,120

NET TO GELAC. \$20,623,222

C-130 PRICING FIGURE

PRICE: 22,344,000

MINUS 7% COM. - 1,564,080

\$20,779,920

MINUS \$4K/AC FEE 164,000

\$20,615,920

NET TO GELAC

PRICE BREAKOUT - 4 L100-30's RSAF

PROPOSAL PRICE:

1974 DELIVERY 6,365,975
 " " 6,365,975
 1975 DELIVERY 6,881,145
 " " 6,881,145

TOTAL PROPOSAL PRICE \$26,494,240

MINUS \$200K/AC NEGOTIATION - 800,000

Δ 25,694,240

MINUS 8% COMMISSION - 2,055,539

Δ 23,638,701

MINUS \$41K/AC FEE 164,000

Δ 23,474,701

SUBSTANT (DEBT) - 271,120

Δ TO GELAC \$23,203,581

0 ~~23,203,581~~

0 ~~23,203,581~~

59 120 806

C-130 PRICING FIGURES:

PRICE: 25,120,000

MINUS 7% COM - 1,758,400

23,361,600

MINUS \$41K/AC FEE 164,000

NET TO GELAC \$23,197,600

INCOMING CABLE

Received -
4/6/72JW5A FOR RIDINGS

LAZZARO AND I ARRIVED RIYADH TUESDAY NIGHT. SNYDER HERE AND I MET WITH HIM THIS MORNING, HE INFORMS THAT HE HAS ALREADY SUBMITTED PROPOSAL TO CHIEF OF AIR FORCE FOR LTN-51 RETROFIT ON C-130 PRESENTLY IN SAUDI ARABIA. THIS IS A LARGE PART OF OUR PROPOSAL 72-189. I PLAN ON SUBMITTING OURS AS PLANNED. SPENT TUESDAY WITH MINOR CONSULTANT WHO INSISTS THAT NOVEMBER MEETING WITH YOU AND I IN WHICH WE AGREED TO 15% ON CENTER WING PROPOSAL COVERS NEW PROPOSAL SINCE IT IS FOR THE SAME WORK. HE IS ALSO ASKING FOR ADDITIONAL 5% FOR NEGOTIATING ROOM BUT WILL CHECK THIS WITH PRINCIPAL CONSULTANT. I HAVE MADE NO COMMITMENT AND HAVE NOT REVEALED PRICE BREAKDOWN BUT TOLD HIM THIS WOULD MAKE THE TOTAL PROGRAM COST ALMOST NINE MILLION. HE WILL ALSO CHECK THIS WITH CONSULTANT BUT FEELS IT IS NO PROBLEM SINCE THERE IS NO BASIS FOR PROGRAM COMPARISON. UNLESS YOU OBJECT I FEEL THE 5% FOR NEGOTIATING SHOULD BE ADDED AS _____ WILL WANT SOME BUCK ON A PROGRAM OF THIS SIZE. REGARDS

JAY WALDEN

Distribution:

W. W. Cowden

P. F. Dobblins

✓ A1.5.2

A6.3.1

Use only one address per space (as indicated by light lines).
 Double space message. Use maximum right line but show thin borders.
 Punctuation is restricted to periods, commas, hyphens, and apostrophes. All other punctuation, symbols and fractions must be spelled out, e.g., dollars, degrees, with power, one-half, etc.

GOING WIRE MESSAGE

DO NOT WRITE IN SHADED AREAS

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1/22/75	4 PM	1/22/75	4 PM	4 PM	03	69-59	

TO: REZAYAT

KUWAIT

Telax 2070

INFO COPY TO:

LOCKRY 67341 (LOCKHED SJ)
 RIYADH (SAUDI ARABIA)
 FOR FRANK MURPHY

NGC

bce:

W. W. Cowden

A6.1.1

A1.19.

A1.27-11

A1.27.9

NR22C PLEASE DELIVER TO TEMP WALKER UPON ARRIVAL KUWAIT

Prince Sultan

23 JANUARY. REUR MESSAGE REGARDING LETTER FROM ~~XXXX~~ SUBJECT

C-130's Syria

FOR ~~XXXX~~ GUIDANCE IS AS FOLLOWS COMMA IF WE RECEIVEREQUEST FOR QUOTE FROM ~~XXXX~~ WE WILL RESPOND WITH ~~XXXX~~ AND

U.S. Gov't

AVAILABILITY BUT THERE IS CONSIDERABLE QUESTION AS TO ~~XXXX~~ISSUING ~~XXXX~~ FOR ~~XXXX~~ AT THIS TIME.Saudi Arabia purchased ~~XXXX~~ AND LATER TRANSFERRED UNITS TO ~~XXXX~~ THEN

IT WILL BE THEIR RESPONSIBILITY TO COMPLY WITH THE THIRD PARTY

RESALE STIPULATION OF THE USE STATEMENT AND ~~XXXX~~NEWS/23 REUR MESSAGE REGARDING PRESENTATION OF ~~XXXX~~ TOSAUDIA FOR ~~XXXX~~ REFURNISHED ~~XXXX~~ COMMA ASSUME PROPOSAL

WAS STRUCTURED FROM INFORMATION FURNISHED IN TS21A. IF SO

COMMA QUOTED ROM ~~XXXX~~ PROVIDES FOR ~~XXXX~~ 10% commissionOUR AGREEMENT WITH ~~XXXX~~ CALLS FOR ~~XXXX~~ 2%ON ~~XXXX~~ IN YOUR MESSAGE OF 21 JANUARY YOU REFER TO

FIGURE PROVIDED TO JEDDAH COMMA THIS WAS DURING TELECON

WITH TODD WHO CALLED IN FOR CROCKETT AND WE WERE USING

FIGURES MADE UP FOR ~~XXXX~~ QUOTE WHICH INVOLVED ACQUIRING

August 5, 1972

1
SAUDI ARABIA
PRICE BREAKOUT C-130H/1,-100-30

	<u>C-130H</u>	<u>1,-100-30</u>
<u>PROPOSAL PRICE</u>	\$34,265,850	\$38,195,850
<u>SPECIAL CONTINGENCY</u>	\$ 1,200,000	\$ 200,000
Triad - Fee	\$ 2,398,610	\$ 2,673,710
Special	246,000	246,000
<u>TOTAL TRIAD</u>	\$ 2,644,610	\$ 2,919,710
GELAC - Aircraft	4,490,000	5,245,000
LTN-51	206,000	206,000
Second	21,000	21,000
Avionics	145,850	
External Tanks	55,000	55,000
Ferry Flight	15,000	15,000
Bonds	62,000	62,000
Conversion	25,000	25,000
Tax	6,000	6,000
Total	\$ 5,025,850	\$ 5,635,000
<u>TOTAL GELAC</u>	\$ 30,155,100	\$33,810,000
<u>TOTAL</u>	\$ 33,999,710	\$37,929,710
<u>DIFFERENCE - Debt</u>	\$ 266,140	\$ 266,140
	(2,265)	(2,265)

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

LOCKHEED PRIVATE DATA

Off TRIAD

TO - C. M. Valentine

DEPT 82-01 ZONE 1 DATE October 12, 1970

FROM W. W. Cowden

DEPT. 69-50 ZONE 1 EXT. 43218

SUBJECT: TRIAD - MEETING WITH ADNAN KHASHOGGI

Mr. Jack Davidson and myself met with Khashoggi in Paris on April 9th or 10th with the principal subject of discussion being the handling of certain excess commissions and their applicability to the special adjustment of \$400,000 referred to in an agreement dated January 18, 1970. At that time we had a newly signed contract from Saudi Arabia for two C-130H's to be delivered in the latter part of 1970, with an option for up to four additional to be exercised prior to September 30, 1970. The contract price for the first two airplanes was such that a total of approximately \$73,000 was available for application to the \$400,000 special adjustment if Lockheed considered it to be appropriate.

Khashoggi's position was that he wanted the \$73,000 (actually \$72,956) to be paid on delivery of the two airplanes under firm contract. Our position was that the excess amount would in fact be applied to the \$400,000 adjustment provided the following conditions were agreed to:

1. The excess amount would not be paid on delivery of the first two airplanes if the option for any additional airplanes was exercised. Instead, this amount would be used first in any necessary price negotiations on the additional airplanes as a result of exercising the option, and second, any remaining amount would be used against this special adjustment. If the option price was maintained in negotiation, then the entire amount would be available plus some minor amounts accruing from the additional airplanes.
2. Whatever amount was ultimately available after the agreed upon "net to Gelac" and regular commissions were satisfied, would be paid to Triad and would discharge the entire Lockheed-Georgia Company responsibility with regard to the \$400,000 special adjustment.

The reason for our position on the above matter was that Khashoggi had obtained from Eric Constable of LAI an agreement to assume the complete responsibility for satisfying the \$400,000 adjustment in connection with future LAI sales, and it was recognized by the parties that further attempts by Gelac to provide coverage for the remaining amount would unreasonably inflate airplane prices to the point where they would again be suspect by the customer.

LOCKHEED PRIVATE DATA

LOCKHEED PRIVATE DATA

TRIAD - MEETING WITH ADNAN KHASHOGGI

-2-

October 12, 1970

Khashoggi reluctantly accepted the position stated in 1 above and offered no objection to the Gelac condition described in 2 above. He admitted he had obtained from Constable a separate commitment to cover from LAI sales whatever remained of the \$400,000 adjustment. This Gelac position has been maintained constantly since that Paris meeting and has not been objected to by Triad until the last two weeks.


W. W. Cowden

WWC:bj

cc: Jack Davidson

*C.L. to Tom Steussloff (3/13/72)*LOCKHEED PRIVATE DATA

2 KNED-GEORGIA COMP
DIVISION OF KNED-GEORGIA CORPORATION
INTERDEPARTMENTAL COMMUNICATION

12 J. C. Fogarty

DDI 81-01 ZONE 41 DATE November 7, 1972

FROM J. E. Walden

DEPT. 69-50 ZONE 11 EXT. 2342

SUBJECT: C-130 INFLIGHT REFUELERS FOR THE ROYAL SAUDI AIR FORCE

Ref: (A) IDC same subject to N. C. Ridings, dated 18 July 1972

(b) Our discussions, same subject, on 6 and 7 July 1972

During the repricing of subject aircraft, \$200,000 was added to the "net to Gelac" and consultant fees, for the purpose of negotiations. During the period of May and June, \$600,000 of this amount was committed to Triad for their subsequent reimbursement to the parties concerned. This amount is over and above the normal fees and commitments we have under contract to this organization. This is a one time commitment applying only to this sale of C-130's. The remaining \$200,000 was used to cover bonding fees and other contingencies which were not originally included in the "net to Gelac" price.

I request that the amount of \$600,000 be disbursed to Triad Financial Establishment in order to honor this commitment. This should be handled through our normal banking channels with Triad, in the same percentage payments as our progress payments are received.

J. E. Walden

JEW:ma

Approved:

N. C. Ridings

W. V. Ceyden

F. F. Davyins

TRIED. GEORGIA COMPA
INC. OF LICENSED AIRCRAFT CORPORATION
DEPARTMENTAL COMMUNICATION

L. Martin

SEPT. 82-02 ZONE 24 DATE November 9, 1972

Encl. 3-A

N. C. Ridings

SEPT. 69-50 ZONE 11 SET 2341

During negotiations on Contract GLX-225/RSAF/1243, an agreement was made with Adnan Khashoggi that \$600,000 would be paid to the Triad Financial Establishment for special Marketing expenses. This amount is over and above our current agreement with that organization. The source of these funds was an amount of \$500,000 which was in the total contract price, over and above the "net to Gelac" price for the airplane.

Request you prepare an amendment to the existing Triad agreement, authorizing payment in the amount of \$600,000, and according to the payment schedule contained in GLX-225, as a one time agreement pertaining only to this contract.

N. C. Ridings
N. C. Ridings

NCR:ma

C73-1162L

November 21, 1972

Encl. 3-1

Triad Financial Establishment
 2 Gerard Lathier
 2 Place du Fort
 Geneva, Switzerland

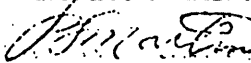
Gentlemen:

Enclosed are two (2) copies of Letter Agreement C73-1151L which covers consideration of special services by Triad in connection with Contract No. GLX-225.

Will you please have both copies executed for Triad and return to me at the address below. Upon Lockheed's execution the original will be returned to your files.

Very truly yours,

LOCKHEED-GEORGIA COMPANY



P. L. Martin

Contracts Department

Department 62-02, Room 21

PLM:cb

Enclosures

bcc: W. W. Cowden
 N. C. Ridings
 R. R. Witts/Conlao
 PLM: file
 CF

G72-11511

June 15, 1973

Triad Financial Establishment
 1/4 Gerard Hotelier
 3 Place du Port
 Geneva, Switzerland

Gentlemen:

In connection with your Marketing Agreement GLD-000, as supplemented and amended, this Letter Agreement will confirm our mutual understanding and agreement further amending said Marketing Agreement.

1. In consideration of special services rendered by Triad in connection with Contract GLK-000, Goins agrees to pay to Triad a fee of \$100,000 in addition to other compensation which may become due and payable to Triad under said Marketing Agreement. Goins shall pay said fee to Triad within thirty (30) days after, and in the same proportion as, monies are actually received by Goins under Contract GLK-000.

2. All other provisions of said Marketing Agreement shall remain in full force and effect.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, kindly co-terminate by signing in the space provided below and by returning to us both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, and upon execution thereof by us, we will return the original to you.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By _____

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

Dated as of June 15, 1973.

TRIAD FINANCIAL ESTABLISHMENT

By _____

LA

G~

11/28/72

23 12 64

28 NOVEMBER 1972.

RELA D.O. WOOD

CORLAC BURBANK

CC: E.J. LAURENT D-69-50 B-2

GELAC MARIETTA.

RC/72/B570-

IN

DO YOU KNOW CHA [REDACTED] DEPARTED HERE WITH YOU SO EYE

O
O
AVE NOT HAD A CHANCE TO TALK TO HIM ABOUT PLANS FOR OUR

EXT SESSION IN [REDACTED] APPRECIATE ADVICE SOONEST AS TO

WHETHER OR NOT YOU PLAN TO ACCOMPANY [REDACTED] REP AND

DECISION ON WHETHER OR NOT [REDACTED] PREPARED MAKE [REDACTED]

7 percent C-130 sales Prince K
WILL BE ON FUTURE [REDACTED] TO [REDACTED] [REDACTED]

A L I O payment [REDACTED]

WOULD RECOMMEND IT BE TAKEN FROM CONTINGENCY

ee INCLUDED IN *price* OF NEXT *6* *C-130*

aircraft

R.F. CONLEY

1720/LON

GA072

104

10/12/72

R.F. CONLEY- REURUT

E.J. LAURENT CELAC

1972

Santi

Commission

file

Not
11.5.9

REUR RC/72/P593. DISCUSSION WITH ☐ INDICATES HE

GAVE INSTRUCTIONS TO INCLUDE ~~ONE~~ ~~ONE~~ ~~ONE~~

present *celac*
☐ PLEASE CHECK THIS WITH ☐ REPRESENTATIVE

IF IT IS NOT IN ~~AD D~~ ~~price~~ ~~price~~ IT TO ~~price~~.

offer
 YOU ARE AUTHORIZED TO ~~AD D~~ IT TO PARTY CONCERNED

consultant
 BUT ONLY THRU ☐ YOU MAY BE PRESSURED TO MAKE

D I R E C T
☐ ☐ ☐ ☐ ☐ ☐ ARRANGEMENT

BUT DO NOT REPEAT NOT DO SO. HAVE INFORMATION

code *B R C K*
 THAT ☐ HAS BEEN ☐ ☐ ☐ ☐

E N *in a similar*
☐ ☐ IN ALSO SO HANDLE THIS ACCORDINGLY.

D.O. 0000

2
 SEPTEMBER 1972.

REPLY: D.O. WOOD D-01-07 B-51 CORLAC BURBANK
 CC: E.J. LAURENT D-69-50 B-2 GELAC MARIETTA.

PC/72/5593-

K. R. D. 11/11
 WILL ADVISE YOU CONCERNING ~~CONCERNING~~ OPINION YOUR TRIP TO

Frank
 AS SOON AS RECEIVE RESPONSE FROM HIM. MEANWHILE

Primer R. Commission
 NEED ANSWER ON ~~EXISTING~~ ~~POSSIBLE~~ ~~POSSIBILITY~~

SOONEST AND IN ANY EVENT PRIOR TO NEXT MEETING WITH

OR

IF POSSIBLE REPLY BY

TELEX TODAY.

R.F. CONLEY - BEIRUT

021242

02312

INCOMING CABLE

12/11/72

FOR: R. D. ROCHE, P. F. DOBBINS, W. W. COWDEN/N. C. RIDINGS

RETTA REF RIDINGS NR7A IMPOSSIBLE SUBMIT DAILY STATUS DUE SECURITY.
 KHASHOGGI SUSPECTS CUSTOMER KNOWS CODE. CONLEY WILL REPORT THURS.
 OR FRIDAY FROM BEIRUT.

FURTHER MY TELECON ROCHE SUNDAY, I WAS PUT IN DOX BY KHASHOGGI, CONLEY
 AND SCHNEPP BEFORE MEETING CUSTOMER BECAUSE:

- A. CUSTOMER THINKS WE FORGING AHEAD ON COMBINATION SYSTEM
 AFTER LAST VISIT. IN HIS MIND REQUESTED WORK STOPPAGE APPLIED
 ONLY TO ORIGINAL ONE FIFTY SYSTEM.
- B. EVERYONE AGREES IN LINE MOD BEST FOR US AND CUSTOMER.
- C. FOR ME TO PRESENT DEADLINE FOR IN LINE MOD WOULD PROBABLY
 BE TAKEN AS ULTIMATUM.
- D. LAS CONTRACT DUE FINAL MINISTER OF DEFENSE APPROVAL NEXT
 COUPLE DAYS. FEAR OF JEOPARDIZING THIS AS WELL AS OUR NEW
 PRODUCT PROPOSAL AS WELL AS ALL FUTURE BUSINESS LED TO
 KHASHOGGI ADVISING I TALK TECHNICAL/OPERATIONAL AND SCHEDULE
 AND ALLUDE TO PRICE BUT ONLY COMMIT TO FIRM HAVING PRICE AND
 AMENDMENT LATER. IN MY VIEW, SUCH APPROACH ON MY PART WOULD
 BE CONCLUSIVE COMMITMENT TO CUSTOMER THAT WE GOING AHEAD AND
 WE COULD NOT HONORABLY BACK AWAY LATER. I DID NOT LEAVE GELAC
 WITH SUCH LATITUDE, HENCE CONLEY FRONTING FOR ME WITH CUSTOMER, DELAY
 MY MEETINGS, AND MY CALL TO ROCHE.

CUSTOMER HAS ORALLY AGREED TO A YET UNFIXED PRICE THRU KHASHOGGI TALK
 TO AND PRINCE KHALID TALKS TO. ALSO NO REACTION
 TO PRICE AGENDA ITEM THAT CONLEY ESTABLISHED WITH. BOTH
 CONSULTANTS WORKING TOWARD 2.4 MILLION MINIMUM AS WHAT IT WOULD HAVE
 BEEN IF WE HAD DONE UNDER ORIGINAL CONTRACT. THIS PROBABLY MOST OPTIMISTIC
 FIGURE BUT MOST PESSIMISTIC APPEARS TO BE 3 MILLION SPLIT EVENLY.

LATE DEVELOPMENTS YESTERDAY MAY HAVE CLEARED WAY FOR ME TO GO AHEAD WITH PRICE AND SCHEDULE WHILE THERE BUT, IF WE ARE NOT TO JEOPARDIZE OTHER PROGRAMS, DEADLINE FOR GO-AHEAD STILL NOT ADVISABLE. KIT APPROACH WOULD ELIMINATE GELAC RISK BUT I FEEL ADVISABLE ACCEPT RISK AND PUSH CUSTOMER TOWARD IN-LINE APPROACH. I ALSO FEEL WE WILL EVENTUALLY GET AMENDMENT TO OUR LIKING. REGARDS

R. D. ENGELHART (From Detroit)

✓ Info copy to D. T. Crockett, Jr.

LOCKHEED PRIVATE DATA

Page 9

<u>Date</u>	<u>Event</u>	<u>Comment</u>
Dec. 12, 1972	Meetings: Conley, Khashoggi, Engelhart.	\$2.965M price devised based on Adnan Khashoggi incentives for \$1.565 minus 8% to Golac based on contract price of \$2.165M.
Dec. 12, 1972	Meeting: Prince Turki, Gen. Zuhair, Major Nazir, Conley, Engelhart.	Review of bidding. Possible 150 GPA flow rate for Lightning unsatisfactory to Prince Turki. Turki would not let meeting progress to price and schedule discussion, although agenda previously established. Prince Turki stated he wanted a meeting 17 or 18 December with us and was inviting Gen. Smith, Chief of U.S. Mission.
Dec. 12, 1972	Letter to Prince Turki (attached).	Reviewed meeting and presented price and schedule.
Dec. 13, 1972	Meetings: Conley, Engelhart, Prince Khalid; and Khashoggi, Khalid, Conley, Engelhart. (Letter Conley to Triad attached)	Established incentives for assistance in resolving tanker mod, \$75K per aircraft plus 1% of contract price.
Dec. 14, 1972	Meeting: Engelhart and Gen. Smith of U.S. Mission.	Briefed Smith on current status. Possible: GPA for Lightning and F-5, but at least f F-5. Supplied technical description and schedule impact, not price. Smith appeared relaxed.

LOCKHEED PRIVATE DATA

TRIAD FINANCIAL ESTABLISHMENT

VADUZ-LIECHTENSTEIN

GELAC

January 11, 1973

Mr. Duane Wood
Senior Vice President, Marketing
Lockheed Aircraft Corporation
P. O. Box 551

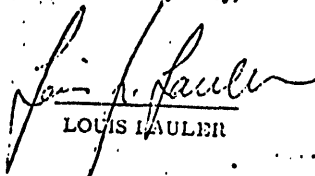
BURBANK
California 91507
USA

Dear Mr. Wood,

This will confirm that Triad Financial Establishment irrevocably commits to assign irrevocably to Cantona Establishment Vaduz/ Liechtenstein, a portion of its marketing fees equivalent to one percent (1%) of the contract price for Jetstar and C-130 aircraft and C-130 centerwing modification work sold by the Lockheed Georgia Company to the Kingdom of Saudi Arabia.

Such irrevocable assignment to Cantona Establishment is contingent upon the prior execution by TRIAD and Lockheed Georgia Company of an amendment to the Marketing Agreement GLD-393 and Product Agreement GLD-394 increasing TRIAD's marketing fees for Jetstar and C-130 aircraft and C-130 centerwing modification work by one percent (1%) of contract price.

Yours very truly,


LOUIS FAULER

SERVICE COMPANY

MENTAL COMMUNICATION

MEMO TO FILE

DEPT.

BLDG.

PLANT

DATE

1-16-73

CC: M. H. Greene
 F. W. Meyer
 D. I. Love

✓ C. M. VALENTINE

DEPT. 0-105 BLDG.

PLANT

EXT.

604

SUBJECT:

LAS-TRIAD MARKETING AGREEMENTS AND ASSIGNMENTS

I have reviewed the status of the basic Marketing Agreement, Product Agreements, and Assignment as in effect on January 16, 1973, and have prepared this summary for file. The basic files on this are handled by M. H. Greene, but a copy of this summary, for information purposes, is provided to Mel Greene, Fred Meyer, and Dean Love.

The basic Marketing Agreement LAS-T-100 was entered into January 1, 1969. Under that, various Product Agreements and Amendments have been mutually executed between LAS and Triad Financial Establishment.

Product Agreement T-1 covers services and hardware sold by Lockheed in Saudi Arabia, exclusive of aircraft. Basically, this covers C-130 and JetStar spare parts and logistics support and services provided under the original LAIAG Contract 1101. T-1, Supplement A, also covers LAIAG purchases under Contract 1107, which were made under that Contract in lieu of purchases made under LAIAG Contract 1112.

Product Agreement T-2 covers C-130 aircraft technical assistance, specifically, Amendment or CCN No. 10 to LAIAG Contract 1101.

Product Agreement T-3 and Amendment No. 1 to T-3 covers logistics support services under LAIAG Contract 1112 (RSAF Contract 3036). Amendment No. 1 changed the method of computing commissions on items 1 and 7.

Product Agreement T-4 covers the C-130 MTU purchased under LAIAG Contract 1112.

Product Agreement T-5 and Amendments 1, 2, and 3 covers the technical assistance group under LAIAG Contract 5054 (RSAF Contract 4141).

Product Agreement T-6 covers the lounge pack for the C-130 Hercules airplane.

Product Agreement T-7 covers LAIAG Contract 1101, as amended by Supplement No. 1 to Amendment No. 9 (flight crew program).

Product Agreement T-8 covers the sale of products and/or services relating to the F-5.

Product Agreement T-9 covers the aircraft maintenance and ground environment operations and maintenance, with Amendment No. 1 covering the ground environment program, and Amendment No. 2 which was not formalized insofar as our files are concerned and which makes some basic changes in the compensation for the ground environment program.

Product Agreement T-10 covers the consolidated technical assistance for the C-130 and JetStar aircraft under LAIAG Contract 5055 (RSAF Contract 4140). There is a letter in the file which increases the compensation by 1%, but I was unable to find any formal Amendment to T-10.

Product Agreement T-11 covers a yet-to-be-developed aircraft maintenance program for the British aircraft Lightning.

On November 6, 1972, Triad Financial Establishment, with whom the basic Agreement and Product Agreements were negotiated, assigned to Triad International Marketing all of TFE's right, title, and interest in and to the basic Agreement and all Product Agreements. Therefore, all of the foregoing are now the responsibility of (and we must hereafter deal with) Triad International Marketing as our marketing consultant for Saudi Arabia.

Outstanding Assignments of Monies Due Under the Foregoing

In connection with Product Agreement T-2, there has been assigned to Lauvier Establishment a sum of money not exceeding \$285,328. This assignment has been acknowledged by Lockheed.

Under Product Agreements T-3 and T-4, Lauvier Establishment has been assigned a sum of money not exceeding \$490,959. This assignment has been acknowledged by Lockheed.

Under Product Agreement T-4, Lauvier Establishment has been assigned the sum of money not to exceed \$250,000 subject to certain conditions relative to the price of the MTU. This assignment has been acknowledged by Lockheed.

Under Product Agreement T-5, Lauvier Establishment has two assignments. One is in the amount of \$58,938; the second in the amount of \$287,519. Both of these assignments have been acknowledged by Lockheed. Under this same Product Agreement, Cantona Establishment also has an assignment of \$287,519. This assignment has been acknowledged by Lockheed.

Under Product Agreement T-10, Lauvier Establishment has been assigned an amount equal to 5% of the contract price. In addition, Cantona Establishment was assigned 1% of the basic contract price. The Cantona Establishment has been acknowledged by Lockheed, although I am not positive the Lauvier Establishment assignment has been acknowledged.

On October 26, 1972, Triad Financial Establishment assigned to Credit Commercial de France/Geneva all amounts due to Triad Financial Establishment under Product Agreements T-3, T-5, T-9, and T-10. This assignment was acknowledged by Lockheed.

Subsequent to the date of the above assignment to Credit Commercial de France/Geneva, on November 6, 1972, which was the same date that Triad Financial Establishment assigned all of its rights to Triad International Marketing, Triad Financial Establishment assigned to Cantona Establishment under Product Agreement T-9 the amount of \$185.15 per man-month. This apparently amounts to \$5,555,000. On November 21, 1972, Lockheed acknowledged receipt of this assignment and advised Cantona Establishment.

For the file, it should be noted that the last assignment is in conflict with the prior assignment to Credit Commercial de France/Geneva under date of October 26, 1972.

This summary does not take into consideration any advances made by Lockheed to Triad.



C. M. VALENTINE
ADMINISTRATIVE DIRECTOR

CMV:el

INCOMING CABLE

7/25/73

FOR RIDINGS/ WALDEN

HS25 July 73

NEED ANSWER TO MY CABLE TO YOU DATED 21 ~~JUNE~~ JUNE:

STOPPED IN OFFICE TODAY AND INQUIRED WHAT ARRANGEMENTS
HAD BEEN MADE BETWEEN GELAC AND TRIAD RE HIS FEE ON FOUR C-130
TANKER BUY. THIS IS CONTRACT SIGNED IN JULY LAST YEAR."

AGAIN INQUIRED ON ABOVE. PLEASE ADVISE.

SNYDER
GENEVA

NR26A Re HS25 STOP There is no
arrangement between Helen and Triad re
a fee for ... and I'm sure
a ... of discussion with Triad because
we have no reason to be so STOP of
... .. of a few ...

MEMORANDUM TO FILE

30 March, 1973

At a meeting convened at the Lockheed-Georgia Company, Marietta, Georgia, 30 March 1973, attended by D. O. Wood, D. T. Crockett, Jr., Ned Ridings, Bill Cowden, T. S. Walker, all of Gelac; and Mr. Adnan Khashoggi and Mr. Lou Lauler of the Triad International Marketing Company, it was agreed the following actions would be taken in regard to the proposal before the Kingdom of Saudi Arabia for provision of a 300 GPM refuel capability in the soon to be delivered tanker aircraft.

1. Gelac would prepare a history of the events which have occurred, documenting the changing requirements expressed by the RSAF.
2. This history will be telexed to Mr. Khashoggi in Beirut by Wednesday, 4 April 1973.
3. Mr. Khashoggi will carry this history into Saudi Arabia for a conference with Prince Sultan tentatively scheduled for 5 or 6 April 1973.
4. Mr. Khashoggi will attempt to persuade Prince Sultan to agree to pay the Lockheed-Georgia Company \$930,000.00 for Gelac providing a 300 GPM refuel capability for refueling the F-5 only. This refuel capability is to be installed in four tanker aircraft.

This \$930,000.00 represents half of the amount last quoted to Saudi Arabia for providing the 300 GPM refuel capability for the F-5 only, and this offer is contingent upon the RSAF purchasing four additional C-130H's at price presently quoted in proposal now pending. Should Saudi Arabia accept this compromise, the breakdown of distribution would be as follows:

Contract Price	\$930,000
Less P.K. Commission	100,000
	<u>830,000</u>
Less Triad Commission	
7% of \$930,000	65,000
Net to Gelac	<u>\$765,000</u>

In addition Mr. Khashoggi agreed that Lockheed should recoup \$400,000.00 from sale of 4 new aircraft to Saudi Arabia. This recoupment is to come from special contingency (\$200,000) and from postponement of payment of old debt to Triad (\$200,000). The ultimate net to Gelac if these offers are accepted will be \$1,165,000 for the tanker modification.

5. The compatibility testing for the F-5 only will be handled as a separate item.

Mr. Khashoggi is to inform Gelac ASAP of the Saudi reaction. If acceptable to Prince Sultan, D. O. Wood or his designated representative will hand carry the compromise proposal to Saudi Arabia.

N. C. Ridings
N. C. Ridings

T. S. Walker
T. S. Walker

NCR/TSW/ma

cc:
W. W. Cowden
✓ D. T. Crockett, Jr.
T. S. Walker
A1.18.1
A1.18.9
A6.1.1

LOCKHEED-GEORGIA COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION

MARIETTA, GEORGIA 30060

March 30, 1973

OFFER TO PRINCE SULTAN RE 300 GPM PRICE -

CONTRACT PRICE -

\$ 930,000

RECOUP FROM 4 A/C PRESENTLY
OFFERED TO RSAF

+ 400,000

1,330,000

PRINCE KHALID

- 100,000

\$ 1,230,000

TRIAD (7% OF CONTRACT PRICE,
\$930,000)

- 65,000

\$ 1,165,000 NET TO GELAC



 ADNAN KHASHOGGI



 D. T. CROCKETT, JR.

ALTERNATE TANKER PROPOSAL	
PRINCE JULIAN REQUEST	
PROVIDES:	
• 300 G.P.M. system for F.S. only	
• FOR REMOVAL OF CERTAIN VALVES / PUMPS	
• WILL NOT INCLUDE SURGE SUPPRESSION VALVE	
• INSTALLATION	
DOES NOT INCLUDE	
• TESTING FOR LIGHTNING AND/OR 150 G.P.M.	
• SYSTEM	
• HAND TOOLS / MANUALS for 150 G.P.M. System	
• F-S COMPATIBILITY TESTING	
CURRENT PROPOSAL	\$ 2,965,000
REDUCE FOR HARDWARE TESTING	- 360,000
175K 125K	2,605,000
REDUCE ABOVE TABLE CONTINGENCY	- 200,000
NEW TANKER PROPOSAL	2,405,000
ADDITIONAL CONTINGENCY	600,000
	1,805,000
PRINCE KHALID COMMISSION	1,000,000
	1,205,000
KHIBRAH SPECIFIC COMMISSION	200,000
	1,205,000
TRIND COMMISSION	1,129,200
8% of 1,865,000	153,200
NET TO GO/INC	\$ 1,116,800.00
FINANCED NEEDS 1,160,000 for THIS PROVISION	
PLUS F-S COMPATIBILITY TESTING	
F-S COMPATIBILITY TESTING WILL BE OFFERED	
AT 815,000 DOWN FROM CURRENT PROPOSAL	
OF 250,000 for F-S / LIGHTNING TESTING	
NOTE:	
CAN PUT IN SURGE CONTROL VALVE AS	
LATER MODIFICATIONS (PER DISCUSSION)	

- WITH HANDBOOKS, MANUALS, AND SOME TESTING CAN REFUEL Helicopters FROM WING TANKS TO PODS
Heli Refueling would require DROUGE change (have SPEED)
- ALL FUEL for Refueling will come FROM FUSelage TANKS. CAN TRANSFER FROM WING TANKS TO FUSelage
- CANNOT REFUEL FROM WING TANKS AT 300 G.P.M.

TSW
27 Feb 1973

TRIMET INTERNATIONAL MARKETING S.A.
SAATCHI & SAATCHI

III

CORRESPONDENCE P.O. Box 100, Beirut, Lebanon
Cable: TRICORP BEIRUT - TELEX: TRICOR 200100
T. 320000 - 331500

August 9, 1973

Mr. Max Helzel
Vice President
Lockheed Aircraft Service Company
Lake Success, N.Y.

Subject: Product Agreement LAS-T-17

Dear Max,

Implicit in the fee schedule agreed upon in LAS-T-17 is that the present Lauvier assignment made against RSAF 4140 will not be operative for any follow-on to or new contract replacing RSAF 4140.

We have provided, however, for a new Lauvier assignment rate of 1.77% of "adjusted manmonth rate" in the LAS-T-17 fee structure, one half of which *may be applied to the retirement of the US\$880,000 referred to in your letter of May 28, 1973*

Louis Laufer

6/16/73
8/16/73

SAUDI ARABIAN CONSULTANT

TRIAD FINANCIAL ESTABLISHMENT

- o Agreement originally entered into in October 1964 with following commission arrangements:

C-130	-	2% 7% + \$41K per A/C
Commercial Hercules	-	2%
JetStar	-	2%
Spares	-	2%

- o Over the years the agreement has been changed several times and has evolved into the following commission arrangements:

C-130	-	8% of contract price plus \$41,000 per aircraft
Modification	-	15%
JetStar	-	2%
Commercial Hercules	-	2%
FMS	-	1%

- o The increase in commission payments has been due to more players getting involved and the necessity to satisfy their requirements in order to get our contracts signed. (This is the Consultant's version).
- o When pricing out a proposal to Saudi Arabia, in addition to the commission that we are bound by agreement to pay our Consultant, which is added to our "net to Golac" price, we also add an amount that we refer to as a marketing contingency. This marketing contingency fund has varied over different proposals anywhere from \$100,000 to \$200,000 per aircraft. This contingency fund has in the past been used by us to give a price reduction during contract negotiations, but mostly has been used by the Consultant for so-called "under the table" compensation to Saudi officials in order to get the contract signed. When we use this fund for an "above the table" price reduction during negotiation, we know what has been done, but we really have no way of knowing if the so-called "under the table" compensation is ever disbursed to Saudi officials or stays at our Consultant's bank account. The portion of the marketing contingency fund that is used for "under the table" compensation is paid to our Consultant for disbursement and this accounts for some of the rather large sums of money that have been paid to our Consultant over and above his standard commission. Each one of these transactions necessitates a one-time amendment to his basic agreement.

COPY OF
OUTGOING TELEGRAMNOTE: SEND FULL RATE CABLE,
NOT VIA PARIS TELEX

RUSH RUSH RUSH

Date

LOCKED

JEDDAH (SAUDI ARABIA)

G67/3243C FOR JACKMAN ROGER YOUR 717A 719A AND 724A STOP STRONGLY
 SUSPECT MACHINERY STALLED FOR LACK OF GREASE STOP IS FORMER AIR ATTACHE
 REALLY PUSHING QUERY URGE YOU INSIST AGENT MAKE A.O.V.E NOW TO KEEP LOG
 ROLLING STOP NUSUB OTSEA REPORTS HE QUERIED WHY NO PAYMENT COMMISSION
 ON NUMBER 5 STOP WE AUTHORIZING PART PAYMENT BUT HOLDING BACK
 ENOUGH TO COVER FINANCE CHARGES; YOU MAY BE ASKED TO EXPLAIN

WHY END

WILKERSON

JHW:bj

cc: T. F. Morrow
 E. J. Housmen
 W. E. Putnam
 R. D. Roche

Distributions: E. J. Housmen
 W. S. Hillburn
 J. P. Gilbert

Our net is \$2.300

2% + 5% brings it to
\$2.474

Proposal says \$2.515

& players get the
difference if

price stays @ \$2.515

A) All players will not know
the spread \$2.474 → \$2.300

B) All players will know
thg. \$2.515 → \$2.474
spread

61200 Co. 10153
E/16/73

(101)

864/11052
RBT

10/18/64

EC/S 6430 RBT

1/5/68

generally of deepened
craters

Sanctus - and

17
4052
1/12/68



WLO

1 Aug 73

Bill All of you can
make any sense
out of this. LOK
Kath h knows what
is current situation. 99

Dave Crockett

From the desk of

LARRY KITCHEN

Basic C-130(2)

376 K 50

Basic AT

70

250

Basic 130

70

700

+ 41K 200

C/Wing

Dive

72

1500

700

+ 41K

(600K)

15 Time 72 and 72

$$\begin{pmatrix} 250 \\ 250 \\ 250 \end{pmatrix}$$

→ 1 Ten 73

800

2.5 Hour
GLK-241

2 Ten 73

500

+ 41K

+ 420, 120

30 Hour
(ali)?

2 Ten 73

700

+ 41K

+ 700K

Spares & Services

$$\begin{pmatrix} 250 \\ 250 \\ 250 \end{pmatrix}$$

SAUDI ARABIA

First agreement was M64-205 dated 10/27/64 with Alnosr Trading & Industrial Corp. In August 1968 was changed to Triad Financial Establishments.

M64-205 provided:

C-130	2%
Commercial Hercules	2%
JetStar	2%
Spares	2%

Later revised to provide:

C-130	5%	
Spares	13%	Tom Morrow agreed.

In October 1964, during the discussions of M64-205, Kashoggi was in Burbank. As a result of his discussions, a meeting was held at Gelac with MacLeod and Lawlor representing Kashoggi. Morrow and Jackman were the principals representing Gelac. As a result of the meeting, Gelac (Morrow) agreed to a price of \$2,515,000 per C-130 to Saudi, \$2,474,000 net to Gelac, resulting in \$41,000 per A/C additional compensation to Kashoggi as "incentive".

This was requested for new engine, 500 hp

This was a "one time only" deal, but got locked in and has been carried forward.

In 1970, M64-205 was "washed out" by the Marketing Agreement with Corlec, GLD-393.

Product Agreement with Gelac, GLD-394, was established providing for:

JetStar	2%
(2) C-130 Mil	\$376,000 each
Add, C-130 Mil	7% + \$41,000 each indirect sale
	1% for I.A.A.S.

On January 1, 1973, a supplemental letter was written to GLX-394 adding a para. (c) which covered the four (4) C-130H proposal (G73/2858L) and the four (4) L-100-30 proposal (G73/2859L). Compensation was also included at 8% of total contract price.

On May 23, 1973, a supplemental letter was written to GLX-394 revising para. (c) to cover only GLX-241 (Proposal G73/2858L), C-130H A/C. This letter also retained the 8% and added \$41,000 plus special fee of \$428,120.

All of the above was agreed to during the Paris Air Show.

On May 30, 1973, a further supplemental letter to GLX-394 was written, deleting para. (c) and increased the 8% to 15%, revised the special fee to a 5% negotiating margin.

DTC would not sign this change but did sign another change of same date revising the para. (f) of the May 23, 1973, change to provide for 7% in lieu of 8% for rate compensation and increased the special fee from \$428,120 to \$700,000.

Regarding LOK "7 all", during the repricing exercise with the Saudi's for the C-130 Inflight Refuelers, Jay Walden added \$600,000 to the "net to Gelac" and consultant fees, for the purpose of negotiations. During May and June, \$600,000 of this amount was committed to Triad for disbursement to parties concerned. This amount is over and above the normal fees and commitments with Triad. The remaining \$200,000 was used to cover landing fees and "other contingencies".

continuing

8-04-74 Distr per R. J. Vitte:

Corp Vault (dupl orig)
 Leo Martin/Gelac
 B. Hartsinck/Calac
 R. E. Reedy/Calac
 Triad File

Supplementing GLD-393

PRODUCT AGREEMENT

This agreement is entered into as of this 21 day of December, 1973 by and between LOCKHEED AIRCRAFT CORPORATION on behalf of its division LOCKHEED CALIFORNIA COMPANY (hereinafter referred to as "CALAC"), and TRIAD INTERNATIONAL MARKETING S.A. (hereinafter referred to as "TIM").

In consideration of the mutual covenants hereinafter set forth, the parties do hereby agree as follows:

1. INCORPORATION OF INDEPENDENT AGREEMENT

All the terms and conditions of that certain Marketing Agreement GLD-393 dated 1 January, 1970 by and between Lockheed Aircraft Corporation for its division Lockheed-Georgia Company and Triad International Marketing S.A. (as assignee of Triad Financial Establishment) are hereby adopted and incorporated herein by reference as terms and conditions of this Agreement, except where such terms and conditions are inconsistent with any of the terms and conditions hereinafter set forth, in which event the terms and conditions hereinafter set forth shall control and be considered as amendments to the terms and conditions of said Marketing Agreement GLD-393.

DISTRIBUTION: PL Martin:fp (1/14/74)

W. Cowden
 G. E. Mastin
 N. C. Ridings
 Contract File

NOTE: Distribution for info only as this is a Calac document, but it references Gelac's Agreement GLD-393.

2. DEFINITIONS

(a) As used herein, "CALAC Products" means Lockheed TriStar 1011 type aircraft as equipped upon delivery to Customers, together with all items of hardware, equipment and services, as supplied by CALAC to Customers under a contract of sale, including, but without limiting the generality of the foregoing, spare parts, ground equipment, training and logistics support. CALAC Products shall also include such other items of hardware and services as may be specifically identified as such from time to time through additional Product Agreements.

(b) The definition of "Customers" shall be expanded to include the Airline "Saudia".

(c) There shall be no "Advances" or "loans" made by CALAC to TIM pursuant to the agreements reached herein; that is to say TIM shall be entitled to receive payment of compensation only after CALAC has received payment as hereinafter set forth.

3. COMPENSATION RATES AND PAYMENT

With respect to the sale by CALAC of Lockheed TriStar 1011 type aircraft and all items of equipment, support and services provided therewith, the rates of compensation and timing of payment to TIM shall be as follows:

A. Compensation

(i) On TriStar 1011 type aircraft the compensation shall be paid at the rate of twelve per cent (12 %) of the fly-away factory selling price as defined in Article 5(b) of GLD-393.

(ii) On spare parts, ground equipment, and other material furnished by CALAC to the Customer under a contract of sale (including fly-away and initial provisioning of spares) the compensation shall be paid at the rate of five per cent (5%).

(iii) On training, logistics support and technical assistance furnished by CALAC under a separate contract, the compensation shall be paid at the rate of 8 1/2 per cent (8 1/2%).

B. Payment of Compensation

Payment of compensation as set forth in Article 6 of GLD-393 to TIM shall be made pro-rata upon receipt by CALAC of payment from its Customers as set forth in Article 5(c) of said GLD-393.

4. TERM

The term of this Product Agreement shall be governed by Article 7 "Term and Termination" of GLD-393.

5. IDENTIFICATION

This product agreement, for identification purposes may be referred to as "Contract CALAC BC (309)".

6. CONFLICT OF INTEREST

In consideration of the covenants herein contained, TIM agrees not to solicit orders on behalf of persons, firms or corporations for products competitive with Lockheed TriStar 1011 type aircraft during the term of this Product Agreement.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed as of the day and year first above written.

TRIAD INTERNATIONAL
MARKETING S.A.

LOCKHEED AIRCRAFT CORPORATION
for its division
LOCKHEED CALIFORNIA COMPANY

By: 

By: 

Its: Attorney-in-Fact

N:PLMartin:fp (3 / /74)

LOCKHEED-GEORGIA COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION

Corlac/w/Dup. Orig.

MARIETTA, GEORGIA 30063

G74/125

1 December 1973

Triad International Marketing S.A.
c/o Mr. Gerard Boissier
4, rue du Mont - Blanc
1200 Geneva
Switzerland

Gentlemen:

In connection with Marketing Agreement GLD-393 and Products Agreement GLD-394 thereto, as amended, this Letter Agreement will confirm our mutual understanding and agreement further amending said Marketing Agreement.

1. Notwithstanding any provisions of said Marketing Agreement to the contrary, the compensation which will become due and payable to Triad by Gelac with respect to the direct sale of ten (10) C-130H aircraft to Saudi Arabia under Contract GLX-256 will be:

Eight (8)% of the total price of Contract GLX-256,
plus \$41,000 per aircraft, plus a special fee of
\$120,000 per aircraft.

This compensation is greater than the amount that would otherwise be due under the percentage terms of said Marketing Agreement and is applicable only to the sale under Contract GLX-256.

If the foregoing correctly sets forth our mutual understanding and agreement in the premises, will you please so indicate by signing in the space provided below, and by returning to us the original and duplicate original of this Letter Agreement. Upon receipt of the document executed by you, and following execution by us, we will return the original to you for your records.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

Dated as of December 1, 1973.

TRIAD INTERNATIONAL MARKETING S.A.

By

D. T. Crockett, Jr.
D. T. Crockett, Jr.
Attorney-in-Fact

LOCKHEED-GEORGIA COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION

MARIETTA, GEORGIA 30060

INTREPID

May 30, 1973

TRIAD FINANCIAL ESTABLISHMENT
c/o Mr. Gerard Boissier
4, Rue du Mont-Blanc
Geneva
Switzerland

DISTRIBUTION: PLMartin/mgs/6-15-73

J. K. Anchors N. C. Ridings
W. W. Cowden R. R. Witte, CORLAG
G. E. Mastin w/duplicate orig.
File ✓

NOTE: This document was executed by Triad and Mr. Crockett during the recent Paris Air Show. Therefore there are no approval or transmittal documents.

Gentlemen:

In connection with Marketing Agreement GLD-393 and Products Agreement GLD-394 thereto, as amended, this Letter Agreement will confirm our mutual understanding and agreement further supplementing said Marketing Agreement.

1. Effective April 1, 1973, paragraph 4, entitled "Basic Rates of Compensation" of said Products Agreement is revised by deleting subparagraph (d) in its entirety and replacing it with the following subparagraph:

"(d) On the sale of products specified in subparagraph 3(c) above, compensation shall be at the rate of seven percent (7%) of the total contract price to be customer (less any deductions provided for in subparagraph 5(b) of Marketing Agreement GLD-393), plus \$41,000 per aircraft, plus a special fee of \$700,000.

2. Payment of compensation will be made in accordance with terms of Articles 5 and 6 of said Marketing Agreement. All other provisions of said Marketing Agreement and said Products Agreement shall remain in full force and effect.

If the foregoing is satisfactory to you, kindly so indicate by signing in the space provided below and returning to us both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, and upon completion of execution by us, we will return the original to you.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

By

(Signature)
Dated as of 31 May 1973.

LOCKHEED-GEORGIA COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
MARIETTA, GEORGIA 30060



1103
DTC 1115 TIKEN

A NEGATIVE

POSITION 11-15

ADVISE LCU LALCT

May 30, 1973

J. J. J. J.
2. J. J. J. J.

TRIAD FINANCIAL ESTABLISHMENT
c/o Mr. Gerard Boissier
4, rue du Mont-Blanc
Geneva,
Switzerland.

Gentlemen:

In connection with Marketing Agreement GLD-393 and Products Agreement GLD-394 thereto, as amended, this Letter Agreement will confirm our mutual understanding and agreement further supplementing said Marketing Agreement.

1. Effective May 1, 1973, paragraph 4. entitled "Basic Rates of Compensation" of said Products Agreement is revised by deleting the present subparagraph (e) in its entirety and replacing it with the following subparagraph:

"(e) On direct sales of work specified in subparagraph 3(c) above, GELAC shall pay compensation at the rate of fifteen percent (15%) of the contract price, including any "over and above work" performed to the customer. In addition, as a special fee, GELAC shall pay to TRIAD the unutilized five percent (5%) negotiating margin included in the proposal to the Customer."

If the foregoing is satisfactory to you, kindly so indicate by signing in the space provided below and returning to us both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, and upon completion of execution by us, we will return the original to you.

Very truly yours,
LOCKHEED AIRCRAFT CORPORATION.

By _____

The foregoing correctly sets forth our mutual understanding and agreement in the premises.

6/20/73 DTC gave this to me
Lidley upon his return from Europe to
the Paris Air Show where he had discussed it with him. He
refused to sign it on the basis that the 5% negotiating
mark-up is not the subject for a contractual agreement.
Dated as of _____ 1973

LOCKHEED-GEORGIA COMPANY

DIVISION OF LOCKHEED AIRCRAFT CORPORATION
 MARIETTA, GEORGIA 30060

May 23, 1973

TRIAD INTERNATIONAL MARKETING S.A.
 c/o Mr. Gerard Boissier
 4, rue du Mont-Blanc
 1200 Geneva
 Switzerland

Gentlemen:

In connection with Marketing Agreement GLD-393 and Products Agreement GLD-394 thereto, as amended, this Letter Agreement will confirm our mutual understanding and agreement further amending said Marketing Agreement.

1. Effective January 2, 1973, paragraph 3 entitled "Products" of said Products Agreement is revised by deleting the percent subparagraph (e) in its entirety and replacing it with the following paragraph:

"(e) All items of hardware and services sold by Lockheed Aircraft Corporation as set forth in Contract GLX-241 with the RSAF."
2. Effective January 2, 1973, paragraph 4 entitled "Basic Rates of Compensation" of said Products Agreement is revised by deleting the present subparagraph (f) in its entirety and replacing it with the following subparagraph:

"(f) On the sale of products specified in subparagraph 3(e) above, compensation shall be at the rate of eight percent (8%) of the total contract price to the customer (less any deductions provided for in subparagraph 5 (b) of Marketing Agreement GLD-393, plus \$41,000 per aircraft, plus a special fee of \$428,120.
3. Payment of compensation will be made in accordance with terms of Articles 5 and 6 of said Marketing Agreement. All other provisions of said Marketing Agreement and said Products Agreement shall remain in full force and effect.

DISTRIBUTION: PLMartin/ings/6-15-73

J. K. Anchors
 W. W. Cowden
 G. E. Mastin
 N. C. Ridings
 R. R. Witte/Corlac

Triad International Marketing S.A.
May 23, 1973
Page 2

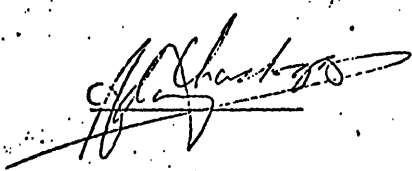
If the foregoing is satisfactory to you, kindly so indicate by signing in the space provided below and returning to us both the original and duplicate original of this Letter Agreement. Following receipt of the documents executed by you, and upon completion of execution by us, we will return the original to you.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By 

READ & AGREED :



427

SHADED AREAS	NUMBERS	01-1000	02-1000	03-1000	04-1000	05-1000	06-1000	07-1000	08-1000	09-1000	10-1000	11-1000	12-1000	13-1000	14-1000	15-1000	16-1000	17-1000	18-1000	19-1000	20-1000	21-1000	22-1000	23-1000	24-1000	25-1000	26-1000	27-1000	28-1000	29-1000	30-1000	31-1000	32-1000	33-1000	34-1000	35-1000	36-1000	37-1000	38-1000	39-1000	40-1000	41-1000	42-1000	43-1000	44-1000	45-1000	46-1000	47-1000	48-1000	49-1000	50-1000	51-1000	52-1000	53-1000	54-1000	55-1000	56-1000	57-1000	58-1000	59-1000	60-1000	61-1000	62-1000	63-1000	64-1000	65-1000	66-1000	67-1000	68-1000	69-1000	70-1000	71-1000	72-1000	73-1000	74-1000	75-1000	76-1000	77-1000	78-1000	79-1000	80-1000	81-1000	82-1000	83-1000	84-1000	85-1000	86-1000	87-1000	88-1000	89-1000	90-1000	91-1000	92-1000	93-1000	94-1000	95-1000	96-1000	97-1000	98-1000	99-1000	100-1000
		01-1000	02-1000	03-1000	04-1000	05-1000	06-1000	07-1000	08-1000	09-1000	10-1000	11-1000	12-1000	13-1000	14-1000	15-1000	16-1000	17-1000	18-1000	19-1000	20-1000	21-1000	22-1000	23-1000	24-1000	25-1000	26-1000	27-1000	28-1000	29-1000	30-1000	31-1000	32-1000	33-1000	34-1000	35-1000	36-1000	37-1000	38-1000	39-1000	40-1000	41-1000	42-1000	43-1000	44-1000	45-1000	46-1000	47-1000	48-1000	49-1000	50-1000	51-1000	52-1000	53-1000	54-1000	55-1000	56-1000	57-1000	58-1000	59-1000	60-1000	61-1000	62-1000	63-1000	64-1000	65-1000	66-1000	67-1000	68-1000	69-1000	70-1000	71-1000	72-1000	73-1000	74-1000	75-1000	76-1000	77-1000	78-1000	79-1000	80-1000	81-1000	82-1000	83-1000	84-1000	85-1000	86-1000	87-1000	88-1000	89-1000	90-1000	91-1000	92-1000	93-1000	94-1000	95-1000	96-1000	97-1000	98-1000	99-1000	100-1000

COMMISSIONS - TRIAD - C-130 RIYADH FACILITY

	<u>PRESENT AGREEMENTS</u>	<u>NEW AGREEMENTS - PER SDI/30560</u>
CONSTRUCTION	5% (T-100 Basic)	10%
EQUIPMENT	19.61% (T-12) +50% incentive	41.9% (?)
CARGO SYSTEM	19.61% (T-12) +50% incentive	12% or 13.9%
CONSTRUCTION (CARGO)	5% (T-100 Basic)	10%
MANPOWER	\$345 per mm - Flight Crews (T-17) 18% of adj. mm rate All Other (Adj = mm -\$1566 tax and -\$560 housing) + 1% total +50% of "negotiating margin" (\$376.00 per mm)	(same)
		To all prices add 5% "negotiating factor" with 50%-50% split.
		No commissions on no-profit items (in-country procurement at cost)

CNV:el
12/13/73

STANDARD AREAS	NUMBERS	1.1.1.1.1.1	1.2.1.2.1.2	1.3.1.3.1.3	1.4.1.4.1.4	1.5.1.5.1.5	1.6.1.6.1.6	1.7.1.7.1.7	1.8.1.8.1.8	1.9.1.9.1.9	1.10.1.10.1.10	1.11.1.11.1.11	1.12.1.12.1.12	1.13.1.13.1.13	1.14.1.14.1.14	1.15.1.15.1.15	1.16.1.16.1.16	1.17.1.17.1.17	1.18.1.18.1.18	1.19.1.19.1.19	1.20.1.20.1.20	1.21.1.21.1.21	1.22.1.22.1.22	1.23.1.23.1.23	1.24.1.24.1.24	1.25.1.25.1.25	1.26.1.26.1.26	1.27.1.27.1.27	1.28.1.28.1.28	1.29.1.29.1.29	1.30.1.30.1.30	1.31.1.31.1.31	1.32.1.32.1.32	1.33.1.33.1.33	1.34.1.34.1.34	1.35.1.35.1.35	1.36.1.36.1.36	1.37.1.37.1.37	1.38.1.38.1.38	1.39.1.39.1.39	1.40.1.40.1.40	1.41.1.41.1.41	1.42.1.42.1.42	1.43.1.43.1.43	1.44.1.44.1.44	1.45.1.45.1.45	1.46.1.46.1.46	1.47.1.47.1.47	1.48.1.48.1.48	1.49.1.49.1.49	1.50.1.50.1.50	1.51.1.51.1.51	1.52.1.52.1.52	1.53.1.53.1.53	1.54.1.54.1.54	1.55.1.55.1.55	1.56.1.56.1.56	1.57.1.57.1.57	1.58.1.58.1.58	1.59.1.59.1.59	1.60.1.60.1.60	1.61.1.61.1.61	1.62.1.62.1.62	1.63.1.63.1.63	1.64.1.64.1.64	1.65.1.65.1.65	1.66.1.66.1.66	1.67.1.67.1.67	1.68.1.68.1.68	1.69.1.69.1.69	1.70.1.70.1.70	1.71.1.71.1.71	1.72.1.72.1.72	1.73.1.73.1.73	1.74.1.74.1.74	1.75.1.75.1.75	1.76.1.76.1.76	1.77.1.77.1.77	1.78.1.78.1.78	1.79.1.79.1.79	1.80.1.80.1.80	1.81.1.81.1.81	1.82.1.82.1.82	1.83.1.83.1.83	1.84.1.84.1.84	1.85.1.85.1.85	1.86.1.86.1.86	1.87.1.87.1.87	1.88.1.88.1.88	1.89.1.89.1.89	1.90.1.90.1.90	1.91.1.91.1.91	1.92.1.92.1.92	1.93.1.93.1.93	1.94.1.94.1.94	1.95.1.95.1.95	1.96.1.96.1.96	1.97.1.97.1.97	1.98.1.98.1.98	1.99.1.99.1.99	1.100.1.100.1.100
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LOCKHEED AIRCRAFT SP... COMPANY
 A DIVISION OF LOCKHEED AIR... CORPORATION
 INTERDEPARTMENTAL COMMUNICATION

DATE May 14, 1974

If you feel that the Memorandum should be formalized as an amendment to T-12, I would appreciate it if you would prepare one accordingly.

Also, Charlie, in reviewing T-12 and Amendment No. 1 I find no specific reference to the new Contract 3360. It appears implicit but I would appreciate it if you would take a look.

Madison

C. Madison Schnepf

CMS/ha

Attachment

cc: C. T. Thum

R. L. Vader

SAVERIA ESTABLISHMENT
c/o M. Gerard Boissier
4 rue du Mont Blanc
Geneva, Switzerland

RE: Marketing Compensation - GLX-258

Gentlemen:

This is to confirm to you our irrevocable undertaking to pay to you compensation in connection with the sale by us of ten (10) Lockheed C-130 Hercules aircraft to the Government of Saudi Arabia under Contract GLX-258, as follows:

1. A sum equal to three percent (3%) of the purchase price of each aircraft sold, plus
2. The sum of \$75,000 (seventy five thousand U.S. dollars) for each aircraft sold.

The compensation set forth above shall be paid to you pro rata to our receipt of payments under the terms of the above mentioned Contract GLX-258 and shall be paid directly to your account at Swiss Bank Corporation, Geneva, Switzerland.

Yours very truly,

LOCKHEED-GEORGIA COMPANY

J. K. Alshorn
W. W. Condon
G. E. Martin
R. R. White/Cerlac
PLM: fil
CF

NOTE:

This letter concerns a previous letter G74/312 dated 11 March 1974 which should be removed from your files and destroyed.

G74/416

5 April 1974

SAVERIA ESTABLISSEMENT
c/o M. Gerard Elester
4 rue du Mont Blanc
Cologny, Switzerland

RE: Marketing Compensation - GLX-253

Gentlemen:

This is to confirm to you our irrevocable undertaking to pay to you compensation in connection with the sale by us of ten (10) Lockheed C-130 Hercules aircraft to the Government of Saudi Arabia under Contract GLX-253, as follows:

1. A sum equal to three percent (3%) of the purchase price of each aircraft sold, plus
2. The sum of \$75,000 (seventy-five thousand U.S. dollars) for each aircraft sold.

The compensation set forth above shall be paid to you pro rata to our receipt of payments under the terms of the above mentioned Contract GLX-253 and shall be paid directly to your account at Swiss Bank Corporation, Geneva, Switzerland.

Yours very truly,

LOCKHEED AIRCRAFT CORPORATION

By _____
E. T. Cressett, Jr.
Attorney-in-Fact

DTC:PLM:sp

cc: Mr. James C. Muir
Tried International Marketing S.A.
Geneva, Switzerland

TRIAD INTERNATIONAL MARKETING S.A.
P.O. Box 114064
Beirut, Lebanon

March 4, 1974

Lockheed-Georgia Company
Marietta, Georgia 30060

Attention: Mr. P. L. Martin

RE: Assignment and Irrevocable Instructions

Gentlemen:

Notice is hereby given that the undersigned Triad International Marketing S. A. does hereby assign, transfer and set over unto SAVERIA Establishment, c/o M. Gerard Boissier, 4 rue du Mont Blanc, Geneva, Switzerland, said assignment to become effective upon your receipt and acknowledgment and consent to this Assignment, that portion of the compensation which is payable by you to Triad International Marketing S. A. under Letter Agreement G74-125 which is equal to the sum of three percent (3%) of the contract price per aircraft plus \$75,000 per aircraft sold under Lockheed Contract GLX-258 with Saudi Arabia.

You are hereby kindly requested and irrevocably instructed to pay said sums, as they become due and payable under Letter Agreement G74-125, directly to SAVERIA Establishment at its account with Swiss Bank Corporation, 2 rue de la Confederation, Geneva, Switzerland. Please indicate your acknowledgment of and consent to this Assignment and your agreement to make payment of all assigned compensation directly to SAVERIA Establishment by executing both copies of this letter and returning one thereof to us.

DISTRIBUTION: PLMartin:fp (3/13/74)

J. K. Anchors

PLM File ✓

CF

NOTE: Only one copy (in lieu of two) of this letter was received from Triad.

Legal advised that it was not necessary to sign the "Acknowledgement and Consent" copies as Page 1.

You are further kindly requested to advise said SAVERIA Establishment, c/o Mr. Gerard Boissier, of your commitment to make the suspect payments in a form consistent with the attached proforma letter.

Very truly yours,

TRIAD INTERNATIONAL MARKETING S.A.


James C. Muir

JCM:pt

Enc:

Acknowledgment and consent:
Lockheed Aircraft Corporation
on behalf of its Division
Lockheed-Georgia Company

By _____



LOCKHEED AIRCRAFT SERVICE COMPANY

A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
ONTARIO INTERNATIONAL AIRPORT, ONTARIO, CALIFORNIA 91761
P. O. BOX 33

September 20, 1974

Lockheed Aircraft International A.G.
1, Place Longemalle
CH 1204 Geneva/SWITZERLAND

Subject: Technical Assistance Services
under Contract LAC M-67-9

Gentlemen,

Under the above referenced agreement, and more particularly its service order dated December 22, 1965, you are paying us for certain technical assistance we perform on your behalf.

We are requesting that you pay for our account the following amounts totalling US\$14,762,971.00 due us from the down payment received under Contract C 94/111/1/AF (LAIAG/SAR/5087) in the following manner:

- 1) On September 26, 1974 transfer to the Swiss Bank Corporation, 2 rue de la Confédération, Geneva, for the attention of Mr. Sunier the amount of US\$ 10,500,000.00
- 2) On October 2, 1974 transfer to the Swiss Bank Corporation, 2 rue de la Confédération, Geneva, for the attention of Mr. Sunier the amount of " 3,000,000.00
- 3) On October 3, 1974 transfer to the Swiss Bank Corporation, 2 rue de la Confédération, Geneva, for the attention of Mr. Sunier the amount of " 1,262,971.00

US\$ 14,762,971.00

Please advise us if you are in a position to do the foregoing.

Sincerely yours,
LOCKHEED AIRCRAFT CORPORATION
for its division
LOCKHEED AIRCRAFT SERVICE CO.

IRAN



~~CONFIDENTIAL~~
 WITH THE UNITED STATES AIRCRAFT CORPORATION
 INTERDEPARTMENTAL COMMUNICATION

Bldg

TO T. F. Morrow - Corlac

DEPT 01-02 ZONE 61 DATE September 24, 1970

FROM N. C. Ridings

DEPT. 69-51 ZONE 11 EXT. 42341

SUBJECT:

In response to your request, the following is a brief summary of my knowledge of Jim Zand:

Zand is approximately 47 years old, born of Iranian parents in Jordan, but moved back to Iran at an early age. He grew up in Tehran, attended the American School in Tehran, and completed one year of medical school prior to coming to the United States. During World War II Zand worked for the American Army in Tehran, and due to this association with the U.S. Army was able to obtain passage to the U.S. aboard a Liberty Ship in early 1946.

At the time of departing for the U.S., Zand's plan was to come to the U.S., tour the country and during this tour select a location in which to establish a business. He departed Tehran with \$3,000 in his pocket, but by the time he completed his tour of the U.S. and selected Columbus, Ohio, as the city in which to settle, he started his business with a capital of \$1,800. Prior to leaving Iran, Zand felt that there was a very good future in selling road building equipment in Iran, and he established a company with two partners. Their agreement was that Zand would come to the U.S., establish an office, and obtain the distributorships in Iran for U.S. made road building equipment, and his partners would take care of marketing of same in Iran. Approximately two years later Zand bought out his partners, and since that time has owned outright Diesel Power Trading Company, Tehran. From a rather meager beginning Diesel Power Trading Company is now the exclusive distributor in Iran for several U.S. companies, some of which are Euclid, Detroit Diesel, General Motors Diesel Locomotives, Galion road building equipment, Ingersoll Rand, Clark Equipment, etc. He has sold 287 General Motors diesel locomotives, in fact the railroads in Iran are 100% equipped with General Motors locomotives. He has sold over 700 Galion road graders, plus many of their cranes, rollers, etc. He does considerable business with the Iranian Navy with his Detroit Diesel products. He has provided the Euclid equipment for some of the major hydro-electric projects in Iran.

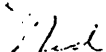
In Tehran, Diesel Power Trading has a downtown office, and the main plant is located on Karadj Road, approximately ten kilometers west of the city. The Karadj Road area has been set aside as an industrial park area. They have an office staff of approximately 30, and I do not know how many are on the shop staff. I have toured this facility and they have complete capability for overhauling and rebuilding all the equipment which they sell except the diesel locomotives. The

equipment in inventory is on consignment, but the spare parts inventory is owned outright. Diesel Power stocks spare parts in Iran for all equipment they sell, and from a tour of this warehouse I would estimate they have well over \$1 million of spares on the shelf. Diesel Power is not the leading company in Tehran, but it is a well established, organized, and from all appearances, an efficiently run organization.

Zand is now and has been for several years a naturalized American, married a girl from Kentucky, and has a family of three daughters that reside in Columbus, Ohio. He travels extensively between Columbus and Tehran, probably averages one trip a month.

From my observation in Tehran of Jim Zand, I would say that he could be rated as strong in the Ministry of Roads, strong in the Plans Organization, well connected in the financial community, and very well acquainted with Dr. Sam'i, Governor General of the Central Bank. He is especially strong in the Prime Minister's office, as Prime Minister Hoveyda is his cousin. Also he is well known in the U.S. Embassy, by the Ambassador, Commercial Counselor, etc., and by principals of the National Iranian Oil Company. Zand is not, to my knowledge, well known in the aviation community of Iran. His business to date has not required him to become involved with these principals. But, the man is an astute businessman and, given a charter, in my opinion he is capable of doing a creditable job.

Regards,


 Ned Ridings

NCR:ma

~~LOCKHEED-GEORGIA COMPANY~~
~~DEPARTMENT OF DEFENSE AND NAVY ORGANIZATION~~
 INTERDEPARTMENTAL COMMUNICATION

LOCKHEED PRIVATE DATA

John C.

TO N. C. Ridings

DEPT. 69-50 ZONE 11 DATE

FROM J. A. Davidson

DEPT. 17/MESA ZONE EXT. 47766

SUBJECT SPECIAL ACCOUNT/

During negotiations leading up to purchase of a number of questions were raised as to what could be done with spares which were then in stock for . . . There were many reasons at the time for our wishing to keep top Iranian decision makers as happy as possible.

Some of the other reasons revolved around additional C-130 sales and, as you know, that possibility did materialize into a substantial purchase contract. For whatever reasons, a number of spare parts were accepted by Gelac and presumably credited, or replacement parts were issued. In the case of certain other parts, Gelac agreed to try to find buyers. In some cases parts were probably returned to the original vendors and some amount of credit given on the purchase of additional items.

During the process of these arrangements, a separate account was established, ostensibly for emergency parts requirements or other special purchases as desired by . . .

This account was administered by the Gelac Finance organization and the Support Manager authorized expenditures against it in accordance with instructions from . . .

I personally do not know all the details as to how this account was established, and how many people were aware of its existence. However, presumably there were a number of people who had and do have knowledge of it.

During my last visit to Iran, . . . gave me a list of items which he wished to be purchased and charged against that special account. He also instructed that upon completion of these purchases, this account be closed, and that any residual funds be returned to him in Iran in U.S. dollar notes. Due to the timing of the . . . request, and the personnel who were nearby, it turned out to be impossible for him to give me written instructions for closing out this account and disposition of the funds therein. However, he did indicate that whatever documentation Lockheed wishes him to sign stating that these are indeed his wishes, would be acceptable.

Obviously, this must be handled with the utmost discretion, and the international mails to and from Iran absolutely cannot be used for correspondence on this subject. I have discussed the . . . request with Bob Crawford, who replaced "Red" Edwards as manager, and who currently administers this particular account. Bob in turn notified Mary Contry in Finance of the . . . wishes. Mary's response was that she would not disburse the funds in this account without specific instructions from someone "higher up".

LOCKHEED PRIVATE DATA

I have discussed the situation with Charles Cochran, who indicated he had no objection to closing out the account in accordance with the wishes, but suggested that the matter would ultimately end up on Jim Fogarty's desk, and that Jim should be my next point of contact to explain the situation. I went to Fogarty, explained what the had asked, and the response was a very definitive and emphatic "no". Jim's reaction was that he did not want his people involved in any manner in this matter. I explained to Jim that, unfortunately, they are involved and have been for approximately the last two years, and that my only interest at this point is in either trying to accommodate the request and close out the matter, or to determine precisely why that cannot be done and what the alternatives are. Jim said that he did not wish to discuss the matter, and suggested that I refer it to the "foreign intrigue channels." I asked Jim to explain what he meant. He said, "Take it to Ned Ridings and Bill Cowden." After I explained that neither Ridings nor Cowden is in town, he suggested I talk to George Kalamber about the problem.

I have explained the problem to George, who feels of course that something must be done to respond to the request, and that our next move should be to draft a receipt which we would ask the to sign. The receipt would have to serve two purposes obviously. First, it would have to serve as assurance to Lockheed-Georgia Finance people that the courier, whoever he may be, had indeed delivered the funds. Second, it would provide some measure of protection for the Georgia Company to show how the funds have been disbursed, and upon whose request it was done.

In view of the attention and speculation items of this nature tend to attract, as well as the attitude apparent on the part of our Finance organization, I feel somewhat apprehensive of being involved in the transaction, but see no easy alternative, since the did make the request to me, and to avoid embarrassment the deal must be made either by myself or one of the other one or two persons that the now know have access to the account. To introduce someone else at this point would make it obvious to the that our security surrounding his account was something less than he had been led to believe. To send him a check, which would certainly be the easiest solution for all concerned, does not answer the problem, because he could not negotiate a check.

As the situation now stands, George and I intend to compose what we think should be a satisfactory receipt for signature by the and then have that receipt reviewed by Cochran, Fogarty and Dave Crockett. We will then solicit their advice as to how to proceed with this matter.

J. A. Davidson
J. A. Davidson

JAD:ma

cc:

W. W. Cowden, P. F. Dobbins, R. D. Roche

G. M. Kalamber

A6.4.1

LOCKHEED PRIVATE DATA

REQUEST FOR CHECK ☐ DISBURSEMENT ☐

FORM LAC 111

ORIGINATING DEPT ORGN

REQUEST DATE

WHEN REQUIRED

69-50

11-1-72

ASAP

AMOUNT

Fifteen thousand and no/100 - - - -

15,000.00

PAYABLE TO

J. A. Davidson

EMPLOYEE NO
(IF APPLICABLE)ADDRESS Lockheed Aircraft Corp. (Mid-East S.A.)
P. O. Box 66-1465
Tehran, Iran

DISPOSITION OF CHECK OR FUNDS

☒ SEND TO
ABOVE ADDRESS☐ OTHER☐ APPLY
AGAINST
ADVANCE

EXPLANATION

Commitment due for Center Wing Replacement for nine

IIAF C-130E's

(IDC Ridings to Fogarty dated 9-27-72)

CHARGE TO ACCOUNT/WORK ORDER NO.

2-7J12

REQUESTER'S SIGNATURE

DEPT / ORGN APPROVAL

ACCOUNTING APPROVAL

FINANCE APPROVAL

GIA COMPANY
CO. AIRCRAFT CORPORATION
CENTAL COMMUNICATION

LOCKHEED PRIVATE DATA

.. C. Fogarty

DEPT. 81-01 ZONE 41 DATE Sept. 27, 1972

FROM N. C. Ridings

DEPT. 69-50 ZONE 11 EXT. 2341

SUBJECT: COMMITMENT DUE FOR CENTERWING REPLACEMENT ON NINE IIAF C-130E'S

The attached IDC made a matter of record a commitment due under Amendment One to Contract GLX-218 (replacement of nine center wings on IIAF aircraft). The IDC established a contingent liability fund of \$33,300, which had been included in the price and was over and above all other commitments. Our commitment on this contract has now been firmed with the party involved, and our total commitment is \$15,000. The party involved has requested settlement of this commitment at the earliest possible date. Work under this contract has not been completed, but as of today we have collected in excess of \$700,000 in payments, therefore I recommend we proceed with settlement of this commitment.

It is requested that Finance Department prepare the receipt which they will require and forward this receipt to J. A. Davidson in Tehran. For transfer of the money, Finance Department could transfer to the Lockheed office in Beirut \$15,000 for Davidson to convert to cash, deliver to the party involved and obtain the necessary signature on the receipt. If for some reason Finance Department does not wish to transfer money to another Lockheed office, then they could make a cable transfer to a Beirut bank for Davidson. The latter procedure was previously used in settlement of another commitment.

Prior to Crockett's departure on his present trip, settlement of this commitment was discussed with him, but he declined to hand carry the settlement to Tehran.

An early settlement of this commitment would be appreciated.

N. C. Ridings
N. C. Ridings

NCR:ma

Approved:

W. W. Cornien
W. W. Cornien

Co. 13
Co. 13

P. J. Davidson
P. J. Davidson

John Davidson
John Davidson

W. D. Jacobs
W. D. Jacobs

cc: J. R. Anchut, W. W. Cornien, J. A. Davidson
A.I.1.1 A6.1.1

LOCKHEED-GEORGIA COMPANY
 LOCKHEED AIRCRAFT CORPORATION
 INTERDEPARTMENTAL COMMUNICATION

TO: D. T. Crockett, Jr.
 R. D. Rocha

DEPT. 93-35 ZONE 32 DATE
 93-23 43

FROM: C. P. Cochran

DEPT. 95-22 ZONE 508 EXT. 45067

SUBJECT:

On Wednesday, 6 June, Ned Ridings was phoned by Bob Mitchell and queried as to why our Iranian Consultant was not a party to submittal of our proposal. Ned gave Bob what information he had and Mitchell requested that I call him later in the day. I did, and what follows are certain facts and comments on this matter since I feel there will be more said by Mitchell in the near future.

Mitchell was called at home on Wednesday morning by Jim Zand. Zand told Bob he was concerned to have learned that Golac had submitted to a proposal which had not been coordinated through him. He suggested to Bob that Golac might be "trying to cut him out."

Zand does not have a Product Letter on the for Iran and never has had. Nonetheless, Mitchell told me and Ridings that the "Corporate understanding" with Zand is such that we should consult with him on any proposals made in Iran and only by prior agreement is he not entitled to compensation for any products sold there.

Our cost proposal for this contains a provision for a consultant's commission of up to \$150,000. We did not contemplate payment of any of this amount to Zand. It was felt that any obligation we might have would be toward . The knows we have this feeling but no amount of compensation due was negotiated with him. Rather, the told Davidson (who has handled all discussions with the) that whatever Messrs. Davidson and Cochran felt was proper would be satisfactory with him. Mitchell seemed to feel that the should be satisfied with \$10,000 - \$30,000. I disagreed and stated that based on discussions with Davidson last December, we felt the and his associates might require up to \$125,000.

Mitchell was surprised and dismayed to learn that "his man" Davidson had been the focal point of our action on this matter. He was also surprised to learn that all conversations with had been by Davidson, not by Golac. Of course, this is as it should be.

I told Bob that I feel we don't need the help of Zand and his associates to bring about this sale. If it . Golac's desire that he be compensated, a condition of the compensation must be that he remain inactive. Further, he must not be aware that is in any way involved. It is also critical that not be told that Jim Zand was rewarded on this transaction, if it comes about.

Bob said he would discuss the matter with Conley and Davidson and would advise me of his findings and the action taken. Toward the end of the week in question, Mitchell called Ridings and asked that Ridings have prepared a Product Letter for for Zand. This letter was to provide payment of 5% of the sale price of the less any commission paid to another party, but would provide at least 1 - 1-1/2% to

BEST AVAILABLE COPY

Zand. The sales price is . Without telling Mitchell that I had heard from Ridings, I called Bob to follow-up with his discussions with Zand, Conley and Davidson. He told me essentially the same thing that he told Ridings.

Yesterday, Davidson called to report that had directed his people to proceed with the procurement and the contract should be signed within two weeks. During that telecon, Jack reported his side of the conversation with Mitchell which resulted from Mitchell's telecons with me, Zand and Ned. He had essentially told Bob that he didn't need Zand and didn't want Zand. Further, that he felt the "Corporate understanding", which I referred to above, was unworkable and needed alteration. Apparently, Mr. Ketchum and Duane Wood were in Telran when Mitchell's call came in so Jack has told Ketchum his views. This causes me to feel there will be further conversation on this matter at the Corporate level within the next several days. I told Jack what Mitchell had directed we have accomplished in a way of a Product Letter and he was strongly opposed to the execution of such an arrangement.

C. P. Cochran

CPC:rom

cc: W. W. Cowden ✓
N. C. Ridings

11/11/78

ACK dist. 2-27-74:

J. J. Zand

W R Wilson

Consultant

Columbus, Ohio 43215 USA

Office:
50 West Broad Street
Phone: (614) 324-5264
TWX: 614-759-0484

Residence:
3929 Fairlington Drive
Phone: (614) 451-5855
Telex: 245-372

January 30, 1974

(Dictated by J. J. Zand
by long distance from
Europe, 1-30-74)

Mr. A. C. Kotchian, President
Lockheed Aircraft Corporation
Burbank, California 91503

My dear Carl:

After your pleasant visit with General Toufanian in Columbus and my visit with you in Burbank, I delivered your letter addressed to the General to him and had a long discussion regarding his presentation and support of the proposal to His Imperial Majesty. I am certain that the General will do his very best to obtain authorization for the investment from His Majesty.

General Toufanian was somewhat disturbed by the rumors heard from various individuals during his visit in the United States. I think that we must have a counter attack prepared so that financial problems, if any, will not affect the implementation of this important project.

Having assured myself of General Toufanian's support concerning the proposal, I proceeded to St. Moritz where General Khatami was vacationing, and reviewed the subject with him in great detail. He advised me that while His Majesty was only thinking of six units, he would recommend that the IIAF can absorb and needs to purchase ten units. He will also be our ambassador of good will, and promote the acquisition by USAF of the units they require, when General Brown visits with him in Teheran some time this Spring. This is extremely important, as he has already received indications from General Brown that the USAF is inclined towards the acquisition of a number of C13's and I am very much hoping that during General Brown's visit in Teheran, the subject of investment will have been sufficiently ironed out to warrant negotiations to be conducted with General Brown. I think you will agree that this will expedite the crystallization of the project immeasurably.

While in St. Moritz, I also met with Minister of Economy Ansari and verified that at this time he is not involved in the decisions concerning such projects, but should he become involved at a later date, I insured his cooperation.

Now I am proceeding to Teheran to make sure that the project will be equally well supported by other IIAF officers and will report to you upon returning to the United States during the second or third week of February.

You will be pleased to learn that based upon my in-depth planning, I now feel that we are in a position to provide all-base coverage and secure maximum support and results within the budget of eight million which we discussed at your office. I shall need four different letters of agreement which I will outline for you during my forthcoming visit during the middle of February.

The February 11 meeting in Columbus has been called off due to the involved nature of the energy situation and the need for Dr. Fallah to be near his boss.

My optimistic forecast and prognosis continues to improve as we continue to work on this important project and I am hoping that before Spring is out, we shall have materialized it, thus continuing our service to Lockheed.

Sincerely,

J. J. Zand

By:

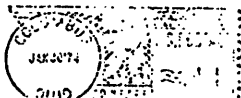
Priscilla Meier
Priscilla Meier
Executive Assistant

JJZ/pm

J. J. Zand

50 West Broad Street • Columbus, Ohio 43215 • U.S.A.

A I R M A I L



Mr. A. C. Kotchian, President
Lockheed Aircraft Corporation
Burbank, California 91503

CONFIDENTIAL

February 18, 1974

Mr. J. J. Tamm
50 West Broad Street
Columbus, Ohio 43215

Dear Sir:

You, your operating companies and others working with you, in consideration of and in reliance upon the promises and representations we have made concerning compensation to be paid, have performed services for and on behalf of the Lockheed Aircraft Corporation. This letter will confirm the understanding we have had with reference to the compensation to be paid to you and those working with you for such services.

As compensation for those services performed and to be performed, Lockheed will pay you and those working with you the total sum of \$3,000,000 subject only to the condition herein stated. If the airplane known as the C-5 Galaxy, any modified version or model of the C-5 Galaxy, or a later model airplane of the design of the C-5 Galaxy, regardless of its descriptive designation or identifying number or name is placed in production, the payment shall be due. If no such airplane is placed in production for a period of two years after the date hereof, or if the services you and your associates have performed prove to have been irrelevant to any such production, the payment herein provided for will not be due and there will be no compensation paid for the services performed by you or others working with you.

If production is begun on any airplane so that compensation is to be paid by Lockheed pursuant to the terms hereof, such payment shall be made as follows:

50% one year after Lockheed authorizes the commencement of production, and

50% two years after Lockheed authorizes the commencement of production.

Four additional letters are being signed concurrently herewith, each of which provides for payments under the terms herein contained but each for a sum less than the amount herein stipulated. The total of the sums due under those four letters equals the amount shown herein and it is understood that said letters merely provide for breakdowns of the total set forth herein and do not provide for sums in addition thereto. In short, the total sum due you and others for compensation shall be the \$3,000,000 herein stipulated regardless of the number of letters which may be written.

Very truly yours,

LOCKHEED AIRCRAFT CORPORATION

By A. Carl Kotchian, President

W. W. Cowden

69-50

1

June 27, 1973

N. C. Ridings

69-50

11

42342

AGENT FEES ON FMS SALES TO IRAN

Through our Washington Office, I have been informed of the following development regarding FMS sales to the Government of Iran.

During General Tausan's recent visit, he informed DOD/FMS personnel that in the future agent fees would not be an allowable cost item on any FMS sales to Iran. The General stated that his instructions were from the Shah, therefore, the subject was not open for discussion. Understand that DOD lawyers are studying this regarding conflict, if any, with current provisions of the ASPE (Air Force Procurement Regulation).

Gelco currently has a commitment to pay our Iranian consultant, SUN YACO, a three percent fee on C-130 aircraft sold to the Government of Iran under an FMS case. As I interpret our Product Letter, it contains no provision that would relieve us of this commitment if it is not recognized as an allowable cost item.

We have not sold any C-130's to Iran under an FMS case in several years, but we did recently quote two C-130H's to DOD/FMS for Iran. We have also proposed these same two aircraft to Iran on a direct contract basis, plus four additional aircraft if desired. At the present time, the outlook is favorable that Iran will enter a direct contract with us for a quantity of two to six additional C-130H's. But, if Iran should make an FMS case for these additional C-130's and the Shah's instructions prevail, we have a problem.

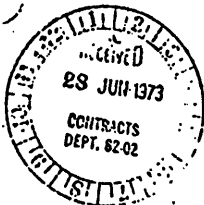
N. C. Ridings

NCR:ew

cc: J. M. Chamberlain/J. N. Matherson
D. T. Crockett, Jr.
Lee Martin
R. I. Mitchell/Corlac
C. B. Monroe/Washington

A1.6.1

A6.1.1



1131

~~W. W. Cowden~~

DEPT. 69-50 ZONE 1 DATE JULY 10, 1973

N. C. Ridings

DEPT. 69-50 ZONE 11 EXT. 2341

AGENT FEES ON FMS SALES TO IRAN

IDC from Ridings to Cowden, dated 27 June 1973, same subject

I received a copy of the attached cable discussing agent's fees on FMS sales to Iran from ASD:ISA (SA)/DSAA, and am passing it along for your information.

J. J. Steusloff
for N. C. Ridings

cc: (with attachment)
J. M. Chamberlain/J. N. McPherson
D. T. Crockett, Jr.
VP. L. Martin
R. I. Mitchell/Corlac
C. B. Monro/Washington
A1.6.1
A6.1.1



7/18/73
showed this
IDC and attached
cable to Guy Martin.
89m

Cable - 3 to FMS P-3 4 spaces
Cable - 3 to FMS C-121 - nothing

11/11/73
J4(08) J5(02) NMCC ASD11 (04)

Sensitized
FOR OFFICIAL USE ONLY

UNCLAS C F T O FDUO 6770

FROM: ASD/ISA(SA)/USAA

SUBJ: AGENTS FEES IN IRAN FMS

REFS: A. CASHISH HAAG IRAN MSG, 231331Z APR 73 (NOTAL).

B. CASHISH HAAG IRAN MSG 051333Z MAY 73. C. AHARD TEHRAN MSG 3636, 200605Z MAY 73.

1. THE SUBJECT OF AGENTS FEES WITHIN FMS WAS DISCUSSED WITH GENERAL YOUSFANIAN, GOI VICE MINISTER OF WAR FOR PROCUREMENT, ON 11 JUNE 73.
2. IT HAS BECOME CLEAR THAT WE MUST ALTER OUR CURRENT PROCEDURES SO AS TO ACCOMMODATE THE SHAH'S INSTRUCTIONS TO GEN YOUSFANIAN THAT THE GOI WILL NOT REPEAT NOT PAY THE COST OF ANY REPEAT ANY AGENTS' FEES REFLECTED IN FMS PRICING.
3. AFTER GEN YOUSFANIAN INITIALLY STATED THE GOI OBJECTION TO AGENTS' FEES, OUR FIRST RESPONSE WAS TO AGREE THAT DOD CONTRACT OFFICIALS SHOULD NOT MONOR AND THE GOI SHOULD NOT HAVE TO PAY EXCESSIVE OR IMPROPER AGENTS' FEES, THAT IS, FEES ARISING OUT OF WHO THE AGENT IS AS OPPOSED TO WHAT SERVICES HE PERFORMS. THIS RESPONSE WAS NOT SUFFICIENT. GEN YOUSFANIAN INSISTED THAT THE GOI WILL NOT PAY ANY AGENTS' FEES. HE AGREED ONLY THAT THE GOI WILL NOT OBJECT TO PAYING FOR REASONABLE AND JUSTIFIABLE SERVICES ACTUALLY PERFORMED IN COM-

PAGE 1

UNCLASSIFIED

00100101

SECTION WITH THE SALE. THE GOI, HE EMPHASIZED, IS WILLING TO PAY FOR VALID REQUIREMENTS; IT IS NOT WILLING TO PAY ANY ELEMENT OF COST ARISING OUT OF "FINANCING" THE TRANSACTION OR THE ASSUMPTION THAT "INTERMEDIARIES" CAN LEAVE THE GOI ANY MORE LIKELY TO ENGAGE OR NOT TO ENGAGE IN A CERTAIN TRANSACTION. GEN TOUSSEMAN WAS PARTICULARLY AWARE THAT THE GOI WOULD NOT PAY COSTS INCURRED AS A PERCENTAGE OF SALES; EVEN $\frac{1}{2}$ OF 1 PERCENT OF A \$100 MILLION TRANSACTION IS CLEARLY DISPROPORTIONATE TO REAL SERVICES AND REAL VALUE TO THE GOI. GEN TOUSSEMAN DID NOT OBJECT TO THE PRACTICE OF U. S. FIRMS USING AGENTS IN IRAN FOR CIVIL SECTOR MERCHANDISE. HE MAKES HIS POINT ONLY IN REGARD TO THE IRANIAN PURCHASE OF MILITARY EQUIPMENT. BECAUSE OF THE INTENTIONS OF THE GOI TO USE THE HIS CHANNEL WHEREVER POSSIBLE, THE GOI SIMPLY SEES NO VALID SERVICE TO BE PERFORMED BY AN AGENT.

4. AS A RESULT OF THE ABOVE DISCUSSIONS THE FOLLOWING ACTIONS ARE UNDERWAY. A. FOR CONTRACTS CURRENTLY BEING NEGOTIATED WHICH ARISE FROM OR INVOLVE GOI END USE REQUIREMENTS WHICH ARE ASSOCIATED WITH THE CONTRACTUAL OBLIGATIONS OF A U. S. FIRM EMPLOYING A REPRESENTATIVE IN IRAN, THE FIRM WILL BE ISOLATED AND IDENTIFIED TO GOI FOR GOI APPROVAL PRIOR TO CONTRACT AWARD. DETAILED JUSTIFICATION AND OR EXPLANATION OF THE FIRM WILL ACCOMPANY THE NOTIFICATION TO THE GOI. IT IS INTENDED THIS PROCEDURE BE INITIATED ONLY AFTER NEGOTIATION WITH THE FIRM INVOLVED. THIS PROCEDURE IS BEING IMPLEMENTED IMMEDIATELY. IT IS RECOMMENDED THAT U. S. DEFENSE INDUSTRY CONSIDER MAKING ALL FUTURE ARRANGEMENTS FOR REPRESENTATION ON A SALARY RATHER THAN A COMMISSION BASIS AND THAT THEY SHOULD ATTEMPT TO MODIFY ALL EXISTING ARRANGEMENTS TO THAT END.

003674

LOCKHEED AIRCRAFT CORPORATION
BURBANK, CALIFORNIA 91520

WILLIAM R. WILSON
SENIOR VICE PRESIDENT

May 13, 1975

James
Mr. J. J. Zand
50 West Broad Street
Columbus, Ohio 43215

Dear Jim:

A situation has arisen which disturbs us greatly. I have enclosed with this letter copies of correspondence between agencies of the U.S. Government which involves the Department of State, Department of Defense, and Department of Commerce. A literal interpretation of these communications suggests that any U.S. company that employs an Iranian representative to assist in offering products and services for sale to the Government of Iran runs a considerable risk of being barred from doing business in Iran.

If the communications truly reflect the policy of the Government of Iran, it is our opinion that all parties concerned stand to sacrifice valuable benefits.

Cases in point are our Earth Resources Program and the Remote Area Health Care Project, as well as other Lockheed products and services. In the two examples cited, your knowledge of the needs of Iran, coupled with your familiarity with Lockheed capabilities, enabled you to recognize an opportunity to formulate programs which will benefit both Iran and Lockheed. Not only did you conceive the programs but you invested your own resources, such as paying transportation costs for Iranian doctors to visit a Lockheed installation in Arizona. Notwithstanding your important contribution to these projects, if the information contained in the enclosed communication accurately states the policy of the Government of Iran, there is no way we can compensate you for your services without risking expulsion from Iran.

- more -

COMMITTEE UNDEVELOPMENTS AND
MARGINAL NOTATIONS

1135

We will appreciate receiving any information you may have as to the policy of the Government of Iran with regard to employing representatives to assist U.S. companies in their business dealings with the Government.

Very truly yours,

A handwritten signature in cursive script, appearing to read "W.R. Wilson".

William R. Wilson

Att.

195

Assistant Secretary of Defense
Washington, D. C. 20301

C
O
P
Y

In reply refer to:
I-1915/75

MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE

SUBJECT: CONDUCT OF AMERICAN BUSINESS IN IRAN

The GOI has again made official representation to the embassy "to the effect that the GOI would not tolerate American business dealing through agents in their affairs with the GOI. There can be no doubt that the GOI is serious in this matter and any American firm caught in violation of this prohibition can be excluded from doing business in Iran." (See attached message)

Request you insure that your departments continue to make all contractors aware of the GOI's opposition to the use of agents.

We are particularly concerned that all civilian contractors be advised of the GOI strong views on this matter. The GOI policy applies to direct commercial contracts as well as those under FMS.

/s/

Robert Ellsworth
Assistant Secretary of Defense

Attachment
as stated

June 19, 1975

Mr. William R. Wilson
Senior Vice President
Lockheed Aircraft Corporation
Burbank, California 91520

Dear Bill:

Before replying to your letter of May 13, I decided to explore its contents with the U.S. Embassy in Tehran and Mr. Parviz Razi, the Special Assistant to the Prime Minister. The net result of these meetings was the aide memoire dated June 3, 1975 from the Prime Minister's office which was delivered to the U.S. Embassy, and of which I enclose a copy.

As you will observe, this aide memoire clearly distinguishes between a legitimate businessman operating a legitimate business and fulfilling his function in a responsible manner towards the client in Iran (whether it be governmental or private entities) and U.S. industries for which he functions as an authorized representative, versus five percenters and influence peddlers.

Throughout the past twenty-eight years I have been entrusted with the function of representation for a significant segment of the U.S. industry operating in Iran, and at all times have conducted myself and my business in a responsible manner. Consequently, over the years I have built a reputation and credibility, and the services rendered by myself and my company have resulted in a substantial volume of business for the industry I represent (including Lockheed) and the complete satisfaction of our clients in Iran.

I trust the contents of this aide memoire clarify the questions outlined in your letter to your satisfaction.

Sincerely,

James J. Zand

Enclosure



The Prime Minister's Office

June 3, 1975.

Aide Memoire

A circular issued by the Department of Defense on the Conduct of American Business in Iran (ref. I-1915/75) seems to have created some misunderstanding in certain American business circles dealing with Iran.

The circular was issued after a conversation on February 8, 1975, between Parviz C. Radji, Special Advisor to the Prime Minister, and Jack C. Miklos, the US Chargé d'Affaires, in which it was stated that the Government of Iran would not tolerate the activities of middlemen, five-percenters and influence-peddlers in its dealings with American companies.

A Mr. J.J. Zand who represents the interests of several American companies in Iran, including Lockheed Aircraft Corporation, has received a letter, from Mr. William R. Wilson, one of the Corporation's Senior Vice Presidents, in which the Vice President, after expressing anxiety over the contents of the circular, states that "a literal interpretation of these communications (i.e. the circular) suggests that any U.S. company that employs an Iranian representative to assist in offering products and services for sale in Iran runs a considerable risk of being barred from doing business in Iran".

The letter further adds: "If the communications (i.e. the circular) truly reflect the policy of the Government of Iran, it is our opinion that all parties concerned stand to sacrifice valuable benefits".

Mr. Zand was particularly irked by the circular's reference to the term "middleman", which he regarded himself to be, and a legitimate one at that.

It appears to Radji that both the substance and the spirit of his conversation of February 8 with Mihlos left little room for doubt as to the Government of Iran's objectives, and it is felt that Lockheed has perhaps inadvertently misconstrued the Government's intentions. However, in an attempt to make its aims crystal clear and to avoid further semantic misinterpretations, the position of the Government of Iran is re-iterated below.

Authorized, legitimate and recognized representatives of foreign firms, by whatever name they may wish to refer to themselves -- and this includes the term middlemen -- are common to international business all over the world and are more than welcome to perform their valid role in Iran. Iran's is a free and rapidly growing economy and it is not even remotely the Government's intention to do anything to hinder the activity or the participation of foreign, and particularly American, firms in the development of Iran.

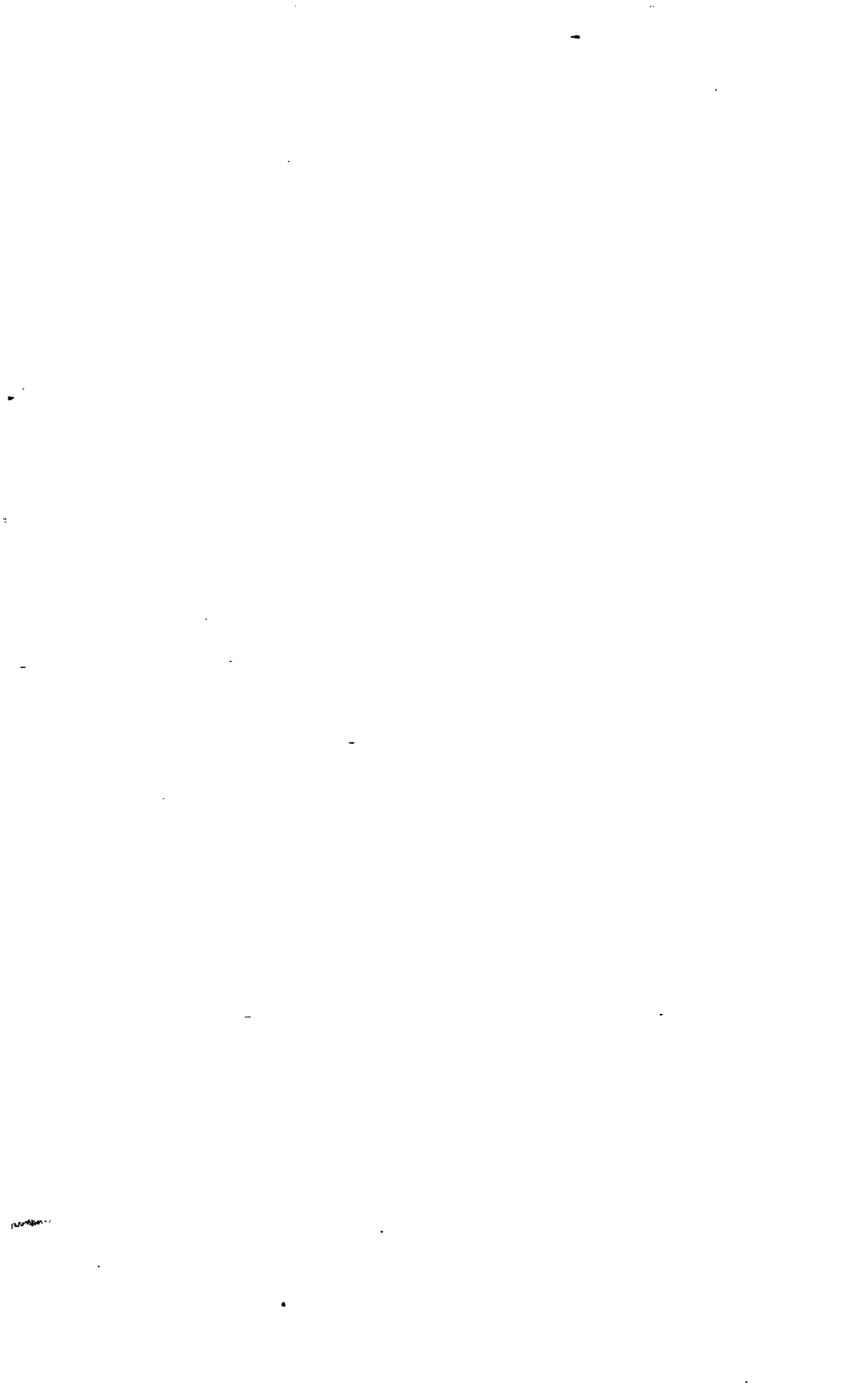
However, what the Prime Minister in particular, and the Iranian Government in general, will not tolerate, is the unethical intervention of individuals, whatever their station or business designation, who through unauthorized and under-the-table receipts of money, seek their own financial enrichment at the expense of the country; and it may be added that in such illegal dealings, the Iranian Government views the donor just as guilty as the recipient.

It is earnestly hoped that this none-too-legal but hopefully all too clear expression of the Government's views will remove from Iran's many future dealings with the American business community, any unethical and possibly scandalous complications that could only do harm to its highly valued and constructive association with American business.



PHILLIPINES

(1141)



00 11 00 11 00 11 00 11 00 11 00 11 00 11 00 11 00
S. G. ORARA
McCANN-BRICKSON (PHILIPPINES), INC.

MAKATI, RIZAL - PHILIPPINES
P. O. BOX 4331, MANILA

File A-18.1

Mr. F. S. McKinney
617 Brookline Drive, S.E.
Marietta, Ga. 30060
U. S. A.

(1143)

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO W. W. Cowdon

DEPT. 69-50 ZONE 503 DATE June 2, 1971

FROM Stan McKinney

DEPT. 69-50 ZONE 11 EXT 46896

SUBJECT:

On our recent trip to the Philippines, Ben Mathvin and I met with the McCann-Erickson area representative, Buddy Oraro, and discussed the proposed PAF C-130 acquisition at considerable length.

Unlike most other P.R. types with whom we deal, Buddy is apparently well connected politically. Prior to his McCann-Erickson service, Buddy was employed for three years by the Philippine Government in the protocol section of the President's office. This has given him entrée to places which, under other circumstances, he would not have. Buddy indicated that these connections could be put to use, at the proper time, to assist our efforts in selling C-130's to the PAF. He said he could not do any good, however, while our proposal remains at Air Force level, even though it is in the Commanding General's office. When it is staffed and passed on to higher authority, Buddy can then purportedly bring influence to bear on the program. In exchange for this service, Buddy indicated that he would not consider it onerous if Lockheed chose to remember him financially if and when the program is sold. He was told that if his services proved to be the catalyst needed to consummate the sale, he would indeed be remembered.

There has been no definite commitment made as yet, but it appears that a consultant may become necessary as things progress in the Philippines.

This IDC will serve to apprise you of the situation to date and to alert you to the possible need of a one-time arrangement with Buddy Oraro.

Stan McKinney

SMK:bbo

cc: G. B. Mathvin

AF.18.1

A6.2.1

October 15, 1971

Mr. Buddy Orera
 IL-FCU Building
 Ayala Avenue
 Makati, Rizal
 Republic of the Philippines

Dear Buddy:

Subsequent to our talk (you, Ben Methvin and myself) last April, it appeared as though the sale of two C-130H Hercules to the PAF was an accomplished fact. All that remained was for your Ambassador in Washington to present your government's request to the U. S. State Department for the two aircraft as a number one priority. This he did in July.

In the interim, however, and unbeknownst to us, all of our efforts and those of your government were being fought on two fronts; through the JUSMAG in Quezon City and through the Directorate of Military Assistance Sales, Plans and Policy Branch, Pentagon. These efforts proved so successful that as of now the PAF C-130 program has been shot down completely. We were told by the responsible member of the Policy and Plans Branch that he had successfully foiled our sales efforts and that the PAF is now getting twelve antiquated C-119 aircraft and \$10 million with which to refurbish them. There is no question that it was put to the PAF, "Either C-119's or nothing."

Buddy, this is a travesty on the Philippine people for several reasons and also on the American taxpayer for economic reasons. To begin with, these aircraft are 20 years or more old. They are completely surplus to any U. S. needs, including USAF Reserve and National Guard Units. They have been in "mothballs" for years and there is no telling what condition the airframes are in, as a result. The cost of refurbishing these ancient craft to make them useful militarily will be astronomical, compared to whatever residual value they might have as junk. The C-119 cabins are unpressurized and it takes six of them to equal the productivity of one Hercules.

It is extremely unfortunate that your air force felt compelled to give in on this one, because once they acquire these machines your country will have taken one gigantic step backward in military transport.

This is parallel to the Brazilian case of seven years ago wherein the Brazilian Air Force wanted C-130's and the USAF, knowing their needs better than they, was going to save them from their own folly by giving them C-119's. However, their Defence Minister prepared a news release stating that Brazil was through accepting the United States' cost-off junk; that they wanted C-130's and nothing else. They got their C-130's.

This is what has to happen in the Philippines if your country is to be spared the Pentagon's "helping hand." Actually, the man who thought up this idea has made quite a hero of himself in Pentagon quarters by finding an outlet for these antique "Flying Bexcars" and has been, coincidentally, recently promoted.

The enclosed fact sheets give a good comparison between the Hercules and the C-119. I don't know how you can use what I am telling you, Buddy, but I feel sure you can find a way to profitably expose the situation. Public knowledge and the resultant indignation could possibly reverse the Pentagon's decision to your country's benefit. In any event, Lockheed's name must, of course, be kept completely out of it for obvious reasons. Please also keep this letter confidential between us, but feel free to use the facts and the fact sheets as you see fit.

I plan to be in Manila again during the week of November 15th and will give you a call on arrival.

Meanwhile, all the best and happy hunting.

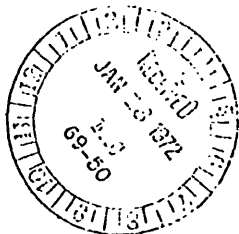
Sincerely,

F. S. McKinney

FSMcK:b

enc.

January 6, 1972



Mr. F. S. McKinney
617 Brookline Drive, S.E.
Marietta, Ga. 30060
U. S. A.

Dear Sir --

Your letter and the background data reached me in the last week of October, a rather inopportune time. We were then nearing the climax of a nationwide electoral campaign, and as you must have realized by now, politics here is taken more seriously than life itself. Hence, even if I had wanted to act on your letter immediately, there was no chance to do so at the time; everyone, from government to armed forces to press, was completely preoccupied with the elections.

For election week I had to go to a distant province, outside Luzon, to personally mind the campaign of some candidates. I was not able to get back to my office until November 15, and then I waited for you to make contact as you said in your letter. I also asked the people at home whether you might have called up during my absence, but the maid who took most of the calls could not say for sure.

I wonder if you did come in while I was out. I hope so. Even if we were not able to meet, you would have gained the valuable experience of being exposed to the height of the political atmosphere in this country.

At any rate, you must have heard that the Administration took an awful beating in the polls. A defeat that made imperative a thorough taking-stock if the incumbent party is to make a better showing in the next elections scheduled for 1973. As we take politics all too seriously, the period since the elections has been taken up by the Administration in refurbishing its image and launching remedial measures to invigorate its campaign machinery, without doing much in the way of government work. At the moment, a revamp of most of the government departments and agencies is in the making, including the Armed Forces of the Philippines. And this move is bound to affect the setup in the PAF, which is your and my immediate concern.

The situation is so topsy-turvy that everybody in the AFP is devoting his time to entrenching himself or maneuvering for a better post, with little time if any to look into the business that is uppermost in our mind. At least, for the moment. I calculate that this state of affairs will continue for another week or so, until the reorganization has been pushed through, and then we can expect the authorities to slowly get back to work. The revamp, incidentally, could very well affect our contacts in PAF, DND and Malacañang.

Mr. F. S. McKinney
January 6, 1972

- 2 -

For now, what I have done about our business is to feed the story to a major business publication which I expect to make an "expose" momentarily. Once the initial leak has been launched, I intend to spread the story to the other major publications until it catches public attention. If this works out, I will follow up with informal contacts with people concerned in government, particularly Malacañang, to fuel the issue further and provide counsel on how the government can make hay out of the controversy. From there, things should fall into place automatically, and hopefully reach a level where the authorities will feel pressured to "request" the U.S. government for a review of the matter.

The newsmen I have fed the story so far, and the others who will eventually get hold of it, will dig for more facts from FAP, DND, Malacañang, and possibly JUSMAG. To supplement their efforts, could you let me know the latest developments, particularly in the Pentagon?

There is another aspect which we should have been able to take up during your visit. It is a rather delicate matter but we might as well clear it up at this stage. As you know, moving around in the local circles for this kind of objective involves financial requirements, whether one is dealing with press people, government people or army officers. In fact, I have already spent a little for this project and now foresee heavier requirements. Will you help me out in this department, or do I assume the expenses under a program of being reimbursed (and rewarded) later on?

The best of the New Year to you, and to Ben.

Brandy Quince

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

LOCKHEED PRIVATE DATA

TO W. W. Cowden
T. J. Cleland

DEPT. 69-50 ZONE 1 DATE March 29, 1973
62-01 508

FROM R. D. Engelhart, Jr.
M. M. Hodnett

DEPT. 69-50 ZONE 11 EXT. 7643
65-11 287 4954

SUBJECT: INDONESIA VISIT - FEBRUARY 26 THRU MARCH 2, 1973

1. Since this report addresses sensitive subjects it is written in much more detail and will have more restricted distribution than normal visit reports.

2. Contacts

- A. U.S. DLG

Col. McCugn, Chief
Col. Johnson, Army Staff
Major Don Desch, Acting Chief - Air Force Section
Major Shiflett - Air Force - Maintenance
Col. R. H. Tyndall - Air Attache

- B. AURI

Marshal Sugandi, Chief of Staff - Logistics, AURI Hq.
Col. Sasmito, Acting Chief - Logistics during Sugandi's illness
Col. Kartopo, Director Maint. & Engrg, AURI Hq.
Col. Sampoerno, Chief of Procurement
Col. Subagio, Director for Maintenance - Log. Command
Col. Mulyanto, Chief, Bureau Aircraft Systems Hq.
Col. Djukahdi, Log. Command - Bandung
Capt. Agah - Procurement
Lt. Hanafi - Procurement

3. Tuesday, February 27 - Met with DLG personnel in the morning and spent afternoon trying to set up appointments with AURI - unable to get thru to AURI Hq.
4. Wednesday, February 28 - Met with AURI Hq. Protocol Officer, Captain Nusten. Arranged meeting with Col. Sampoerno. Met with Col. Sampoerno and Lt. Hanafi. Established agenda for meeting with full Hq. Logistics group Thursday morning. Spent afternoon at Halim Air Base with DLG personnel reviewing shops, hangar and spares stores. Reviewed DLG efforts to identify three warehouses of un-indexed spare parts prior to moving them to the Bandung overhaul depot. A USAF Sergeant from VIRALIA on 6 months TDY is barely making a dent in identifying the parts to the Federal Stock No. System. Most parts will be moved to Bandung unidentified. Strong pitch was made for having Gelac spares specialist included as member of LASS team at Bandung to set up manageable stores system. This had been previously coordinated with Menke in Singapore.

LOCKHEED PRIVATE DATA

5 Thursday, March 1, Morning - Met with

As predicted in Cederberg telex prior to trip, meeting revolved around tightening of the Ministry of Defense on AURI activities, including contractual arrangements with suppliers. Also, as with later, there was continuous reference to Gelac prices and the necessity to place orders where the price is best.

MOD had reviewed Gelac-AURI spares and services contract and wanted changes including:

- (1) A disputes clause.
- (2) Applicable law changed from Georgia law - preferably to Indonesian law, but international law acceptable.
- (3) Deletion of requirement for specific minimum Letter of Credit amount of \$500,000 - funding level to be established annually by AURI on basis of firm and projected orders.

MOD had also suggested that an Indonesian firm be appointed to represent Lockheed in dealings with the government. MOD/AURI would then contract with the Indonesian firm. However, every one of the senior members in the meeting then explained how we could avoid this by refusing on such grounds as our policy of dealing directly with the customer, infrequent nature of the business, high cost of such arrangement, etc. This is viewed by us as indication that perhaps unknown persons in MOD are trying to horn in on the AURI players. It was not clear whether all AURI members in the meeting participate in the "widows and orphans" setup, but their suggestions of how we could combat the appointment of a local company indicate they do, or they were simply following 's orders.

Amidst all the foregoing discussion of MOD requirements, a strange question was asked by , "What difference would there be to Indonesia in dealing with LAI instead of Gelac?" We confirmed that he was not referring to LASS, with whom he was very familiar. We were unable to determine whether AURI picked up the LAI name from the Prill/Cederberg visit with the Indonesian Army in early February, or whether it was connected in their minds with the Avliquo/Gelac experience of a couple of years ago. However, it obviously was aimed at the recurring question of price.

The next subject of discussion would indicate the officers in the meeting are not participating in the "widows and orphans" fund and are sniping at , who had led the discussion, prefaced with some remarks about the sensitivity of the subject. Then he requested that all future dealings should include a commission of 1 1/2% for the Air Force. He did not say for MOD. He was obviously uncomfortable with the subject and it appeared he had been appointed spokesman for the group and would be in trouble if he didn't ask for the commission. In an attempt to further draw them out, Hodnett asked if they were asking for a discount to reduce the billing amount. Indicated he was requesting a hidden rebate. We stated we could make no commitment since we had no knowledge or authority to discuss such matters.

LOCKHEED PRIVATE DATA

6. Thursday, March 1, Afternoon - Following the meeting at AURI Hq., sent
 aide with us to meet with at his home. We had a long discussion with
 on the following subject;

A. His need for a Gelac liaison man in Djakarta for:

- (1) Covering him on buying from Gelac versus the competition.
- (2) Giving technical assistance in keeping the JetStars on call for the President.
- (3) Advising him on dealings with DLG, i.e., establishing budget priorities, accepting or rejecting DLG advice on Logistics matters.
- (4) Handling the Letter of Credit arrangements and payments with the Bank of Negara which, in Tom Kelly's absence, is having to do.

He reiterated his inability to pay for a Field Service Rep, and we politely reiterated our inability to place one there free. He made it clear he wanted Tom Kelly back and stated the alternative arrangements for sporadic visits by LASS, Cederberg and Engelhart were unsatisfactory since he needed someone quickly when he needed him.

B. Gelac's Prices. The price on JetStar engine overhaul had embarrassed. He cited some other smaller examples of better prices for items from competitors. His only answer to competitive prices however is that Lockheed should always be lower than the competition; but if we get caught by a lower price, reduce ours to meet it upon notification from (another reason he wanted a Service Rep close by). said that he was getting the reputation of being a salesman for Lockheed. We explained that we wanted the business, Lockheed stood behind what we sold, and we provided services the competition did not provide, such as exporting, handling the shipping, assuring the correct parts were shipped in cases of superseded parts, providing fast delivery, etc. We explained that all of this should be considered in price comparisons, but we also explained we could not sell at a loss. He didn't really seem to comprehend this. Although he gave lip service to what we had said, he reverted to the need for Lockheed to always quote the lowest price, so he could justify his procurement from Lockheed.

C. We reviewed the morning meeting with. He was conversant on all subjects except the request for 1 1/2% of the funds for the Air Force. Upon hearing this, he became wild-eyed and stated repeatedly that we should not discuss this with the other officers, we should not comply with the request nor respond to it, and that this had been settled with Mr. Mitchell. V/c assured him that we would take no further action on this subject and he stated he would kill it, but didn't volunteer how.

LOCKHEED PRIVATE DATA

D. The meeting ended on a cordial note. In summary, all of 's requests centered around a desire to insure continuation of the "widows and orphans" arrangement.

7. Friday, March 2 Met with Col. Tyndall, Air Attache. Used AURI organization chart, which he made up in absence of any AURI published information, to get information on Tyndall's evaluation of personalities. 's name was never mentioned, but as Menke at LASS, and Major Desch and Col. McCuen had indicated, Tyndall pointed to Marshal Untung, Commander KOLOG, Bandung, as the emerging strong man in AURI Logistics. Tyndall also was aware of MOD crackdown on all services and volunteered that in the future AURI would not be able to make any significant purchases without MOD on their side. We asked about the AURI Enterprises organization which Tyndall's chart showed reporting directly to Tyndall stated that ' was still very much in the AURI as Commander of AURI Enterprises, and he was more and more active recently.

8. Conclusions

- A. ' was expecting to be recovered from his illness and back at work by mid-March. He is evidently still in the driver's seat at this time, so any commissions due at present such as those on the two JetStar overhauled engines should be processed. However, before paying any future commissions (4 C-130 engine overhauls coming up this summer) we should have another reading on the strengths of the players. It would not be surprising if the situation with MOD got beyond the control of and
- B. AURI funding remains very limited. Therefore no major purchases from AURI funds are anticipated in the near future. In response to our notification of the short time span remaining on the Center Wing Mod line at Gelac, AURI officers stated they had to depend totally on DLG. AURI wants eight new C-130's but, again, they are totally dependent on DLG to get them. DLG is planning on budgeting for one new C-130 a year with deliveries starting in 1977. Regardless of Hercules production projections, this is the best DLG can do under present budget limitations. One Hercules would take approximately one fourth of the total projected Army, Navy, Air Force, Police assistance budget each year. There are no funds for Center Wing Mod. However, DLG and CINCPAC are aware of the center wing problem and may be able to find a way to get into the Gelac line at meetings with V/RAMA in early April. Quantity is unknown at this time.

LOCKHEED PRIVATE DATA

- C. Contract changes will be forwarded to AURI by Customer Supply Sales and Contracts Department along with priced spare parts catalog. No action will be taken on the local representative or 1 1/2% requests until further readings and firmer indications of the necessity of these are received.

R. D. Engelhart, Jr.

R. D. Engelhart, Jr.

M. M. Hodnett

M. M. Hodnett

RDE:ma

cc:

D. T. Crockett, Jr.

D. W. Cederberg, Canberra

R. I. Mitchell, Corlac

LOCKHEED PRIVATE DATA

J. K. Anchors - Gelac

81-43

502

August 7, 1972

R. L. Mitchell

07-50

61

A-1

76543

A. U. R. I. PROCUREMENT

Pursuant to your telephone conversation with J. H. Wilkerson this date, and in accordance with the CORLAC/GELAC/LAS approved Agreement dated 29 July 1971, you are requested and authorized to pay 10% commission to the Indonesian consultant on all A. U. R. I. direct procurement from Lockheed-Georgia Company (excluding government-to-government transactions) for C-130 and JetStar aircraft, ground support equipment, component overhaul, technical services, and modification/IRAN programs performed outside the U.S.A. New or used aircraft procurement, modification/IRAN programs performed in the U.S.A. and other Lockheed products and services shall be the subject of separate negotiations.

Proceeds should be made payable to:

Lockheed Aircraft (Asia) Limited
Bank of America Account Number 06623-06348
International Banking Office
101 West Seventh Street
Los Angeles, California 90014

You are requested to simultaneously advise J. W. Clutter, President of LAAL, Tokyo, of such payment amounts.

(SIGNED) R. L. MITCHELL

R. L. Mitchell

cc: D. W. Cedorberg
J. W. Clutter
E. E. Rainwater

D. GEORGIA COMPANY
BY LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO G. C. Mathvin

DEPT. 69-50 ZONE 11 DATE January 10, 1972

FROM F. S. McKinney

DEPT. 69-50 ZONE 11 EXT. 44996

SUBJECT: AURI COMMISSIONS

I checked today with Lee Martin and Jess Phillips to determine if they had ever received any instructions, a written agreement, concerning payment of "commissions" to the AURI. In both cases, the answer was negative. Thus, as far as Galac is concerned, there are still no channels established for payment of these expected "commissions."

During the joint visit of R. I. Mitchell and myself to Indonesia last July, he (Mitchell) agreed, upon his demand, that Lockheed would pay a 10% commission on all future hardware and services purchased from Lockheed by the AURI. Subsequently, as you know, Mitchell established International Traders Ltd. as the medium through which such commissions would be paid.

As you also are aware, a real foul-up occurred the first time International Traders was used for payment of some back funds which had been owing. Mitchell thereupon cancelled the agreement with International Traders, retrieved the funds and paid them through LAIL, Hong Kong. At the time this was done, we were told by Jim Wilkerson that future AURI commissions would be paid through this channel. However, no agreement to this effect was ever drawn for our Contracts people so that the payment of "commissions" would become a routine function.

In the last quarter of 1971, Tom Kelly resold his contract to the AURI for another year of Field Service technical coverage. We will be expecting the 10% "commission" on this renewal, per the verbal agreement made in Djakarta in July 1971.

The AURI hierarchy is presently fairly well satisfied with Lockheed, after several years of ill concealed hostility. This is because the back-owed funds were recently paid through LAIL. It would be a shame to allow these improved relations to deteriorate to their status of early 1971. However, this is exactly what will happen unless an agreement is drawn which will activate repayment to the AURI automatically, as required, and a channel established through which the money can be paid. (We lost our Hong Kong outlet with the closing of that office.) The agreement must be such that it will withstand Internal Revenue Service scrutiny, inasmuch as funds repaid the AURI should be tax deductible.

I am still confident that the AURI intends to acquire eight additional C-130's in the next couple of years, provided we continue to do business their way. However, this potential could be completely voided if the means are not established, soon, to do this.

F. S. McKinney
F. S. McKinney

FS:McK:to

cc: J. K. Anchors
✓ W. W. Cowden
R. D. Enghart, Jr.
AL:7.1

RETRON OFFICE RELAYING FROM RIYADH.

A15.9

14 DECEMBER 1972.

1972

RELAY W.W.COWDEN/H.C.RIDINGS D-69-50 GELAC MARIETTA

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~~CHA AND~~

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negotiating position
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MAAG Chief
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Coley *I*
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proposal
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WORKING WITH ~~AT~~ ~~WHEN~~ ~~LETTER~~

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T A NKS

~~QUERY STOP WHAT'S THE DIFFERENCE~~

IN CAPACITY BETWEEN LARGE AND SMALL VENTRAL PACKS

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NOT ARGUING SUBJECT JUST BEING PREPARED STOP

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~~REPEATED~~ APPEARS ERRONEOUS IN LIGHT OF MY UNDERSTANDING OUR

INTENTIONS NOT TO BUILD ~~BRIDGE OVER RIVER AT~~

STOP

THIS IS FIRST MESSAGE SINCE TELECON MONDAY NIGHT BEIRUT END

REGARDS

R.D. ENGELHART GELAC 69-50

AP1114

• GAS41

INCOMING CABLE

Saudi
10/30/73

TSV/30 No. 3

FOR RIDINGS

CONLEY AND I MET KHASHOGGI. KHASHOGGI STATES HAS PROPOSED A FIFTY-FIFTY FINANCE PLAN BETWEEN SAUDI AND U.S. TO SUPPORT SUDAN PACKAGE. KHASHOGGI SAYS THIS CONCEPT DISCUSSED AT HIGHEST LEVEL IN U.S. AND NOT REJECTED. KHASHOGGI REQUESTS CONTRACT FOR FIVE C-130'S PLUS SPARE PARTS AND TRAINING FOR ONE YEAR BE PRESENTED. CONTRACT SHOULD SPECIFY VALIDITY CONTINGENT ON FINANCING AND EXPORT AUTHORITY. KHASHOGGI SAYS SUDAN WILL ACCEPT AND SIGN THEN KHASHOGGI WILL USE THIS TO RESOLVE OTHER TWO PROBLEMS NOTED ABOVE. STATES POLITICAL SITUATION HERE WILL PERMIT ACCOMPLISHMENT AS PROGRAMMED.

KHASHOGGI WANTS 15% BUT AGREES ANY PRICE REDUCTION OR GREASE WILL COME OUT OF HIS COMPENSATION. REPEAT COMMISSION WILL NOT AFFECT NET TO GELAC. SUGGEST PRICE OF \$6 MILLION FOR 1976 DELIVERY WHICH SHOULD COVER BOTH KHASHOGGI, NASH AND GELAC. BUILD SPARE PARTS AND TRAINING ACCORDINGLY.

KHASHOGGI ALSO KNOWS OF AND SUGGESTED GELAC MIGHT WANT TO ARRANGE SALE OF C-130'S FROM IRAN TO SUDAN USING SAME FINANCE PLAN. ALSO INCLUDE IN PACKAGE AERIAL DELIVERY SYSTEM. RECOMMEND AGREEMENT SINCE KHASHOGGI VERY OPTIMISTIC OF SUCCESS. IF YOU AGREE GET CONTRACT TO LAMESA ADDRESSED CONLEY OR ME FOR VERY EARLY PRESENTATION.

NUSUB: KHASHOGGI STATES FUTILE PRESENT NOW PROPOSAL TO SAUDI FOR 1976 C-130'S. PRINCE SULTAN WANTS PROPOSAL FOR FOUR C-130'S IN 1974 WITH NON REFUNDABLE PAYMENT FOR OPTION FOR SIX C-130'S EARLY IN 1975. KHASHOGGI INSISTS ON \$200,000 PER ITEM FOR CONTINGENCIES. KHASHOGGI INDICATES IMPORTANT I PRESENT PRINCE SULTAN SOONEST. HE SUGGESTS MEETING 3 NOVEMBER IN RIYADH AND WILL ASSIST IN ARRANGING. IF DEFINITIVE PROPOSAL NOT POSSIBLE IN TIME I SUGGEST I BE

A proposal for the sale of ten C-130H aircraft was presented to on November 14, 1973. These aircraft were priced at \$6.3 million each, which sum included the normal commissions plus \$200,000.00 of "negotiating money." This \$200,000.00 was included in the price at the insistence of A.K. and, in theory, can be committed by A.K. and/or the Gelac salesman for a price reduction or by A.K. alone for under the table payoffs. For this particular deal, A.K. had taken the position that all negotiating money not negotiated away would go to TRIAD as a bonus. P.K. had been told by A.K. of this "bonus" arrangement; However, A.K. told P.K. there was \$150,000.00 rather than the actual \$200,000.00 in this category.

on November 28 insisted that our price of \$6.3 million was too high and requested Temp Walker to contact the Georgia Factory for a price reduction. held a commercial aircraft at Riyadh and paid for a round trip ticket to enable Temp Walker to proceed immediately to Beirut to get quick answers.

Over the phone from Beirut, Temp Walker received approval from D. T. Crockett, Jr. and Bill Cowden to reduce the price of the aircraft to \$6.1 million, if necessary, to get a quick decision from

Temp met with A.K. in Beirut during the early morning hours of November 29. A.K. was told of the decision to go to \$6.1 million, if necessary, thereby giving up all of the negotiating money. A.K. agreed with this requirement, but asked Temp to hold out for \$6.3 million as long as possible. Temp promised to go back in at \$6.3 million, but told A.K. the price would be reduced, if necessary, to get a fast decision.

Temp met A.K. in Riyadh at 3:00 a.m. where A.K. stated the \$6.3 million price was solid. A.K. was told again that speed of sign-up was essential for Lockheed and that we would try to hold the \$6.3 million price, but the price would be reduced if necessary.

Temp Walker met with , Gen. , Dorm Viers and Sal Aswaad at 9:00 a.m., December 1. accepted our latest schedule, but insisted he must have a price reduction. After about two hours of negotiating, Temp Walker agreed to reduce the price to \$6.2 million if would ensure a signed contract before year-end. agreed. The contract was signed December 21, 1973.

On December 3, P.K. sent word to Temp Walker that he desired a meeting. Temp met with P.K. at 6:30 p.m., December 3, at P.K.'s villa. P.K. was upset that Temp had given away \$100,000.00 of the negotiating money. He claimed that would have accepted the \$6.3 million price had we held out long enough. (This did not seem to be the case during negotiations with .) P.K. then informed Temp that he and A.K. had formed a new company (SAVERIA) to market all C-130's in Saudi Arabia. P.K. said the split was to be 60% for A.K. and 40% for P.K. He then asked if there was a letter in Lockheed explaining this new company. Temp knew nothing of this and told P.K. so. P.K. then asked if his share of this contract would come to \$175,000.00 under the 60-40 split. He was told that there was something he would have to work out with A.K.

P.K. then stated he had reason to believe the total commission paid by Lockheed was about 8% plus the negotiating money. Again P.K. asked Temp to assure that P.K.'s 40% share would meet or exceed \$175,000.00. He implied he had a commitment of \$125,000.00 to and needed to know.

Temp again repeated he did not know, where upon P.K. asked Temp to make an estimate, hinting that he could still influence to delay the contract should Temp refuse.

Temp thereupon did a rough calculation and told P.K. that if the 8% was correct and the 60-40 split was correct, he would be in good shape. Based on a rough calculation, 40% of the supposed 8% would be about \$225,000.00. P.K. then stated he felt he was entitled to about \$275,000.00 and that he believed there was a fee attached to each aircraft. Temp told P.K. there was an administrative fee of \$40,000.00 to pay for offices, etc., and if this was counted in, his 40% share of the assumed 8% would be about \$255,000.00.

P.K. appeared satisfied and said he would contact A.K. or Lew Laufer to see what had happened to the new company. He said he had not been able to reach either one for several weeks.

Upon return to our consultant's office (December 3), Mohamed Othman confirmed there was a new company set up on a 60-40 split. At this point in time, no one in Lockheed knew of this company or the details of the arrangement between A.K. and P.K.

On December 6, Temp Walker, D. O. Wood, Ned Ridings and Lew Laufer met with A.K. in Beirut to resolve the flap caused by P.K. phoning Lew Laufer and asking for an accounting. A.K. did not seem particularly disturbed for he apparently guessed that P.K. was talking about a total payment to P.K. of about \$275,000.00 and that P.K. would be overjoyed when he actually got more. A story was developed to present to P.K. which would support the actual split A.K. intended to make with P.K.

Under the SAVERIA company, A.K. has told P.K. that the total commission paid by Lockheed is 3% of the sales price plus 50% of any negotiating monies remaining. A.K. and P.K. split this 60-40%.

On December 10 in Riyadh, Temp Walker, D. O. Wood, A.K. and Lew Laufer met with P.K. to settle matters. It soon became evident that P.K. was not upset over the percentage commission (3% of the total contract being much more than P.K. had expected) but was very upset over Temp giving up "his" negotiating money-unnecessarily. P.K.'s contention was that Temp should have conferred with P.K. before agreeing to a price reduction.

To further complicate matters, A.K. had told P.K. there was \$150,000.00 negotiating money rather than the actual \$200,000.00.

It finally was agreed by D. O. Wood that P.K. would receive his commission (thru the SAVERIA Co.) as though Temp had not negotiated away \$100,000.00.

In the eyes of P.K., had Temp not given away \$100,000.00, the SAVERIA Co. would share as follows:

SAVERIA Co. gets 3% of contract price plus 50% of negotiating money

3% of \$6.2 million	=	\$186,000
50% of \$150,000	=	75,000
Total:		\$261,000
P.K. gets 40%	=	\$104,400 per aircraft

In the eyes of P.K. since Temp actually gave away \$100,000.00, the SAVERIA Co. really should share as follows:

3% of \$6.2 million	=	\$186,000
50% of \$50,000	=	25,000
Total:		\$211,000
P.K. would get 40%	=	\$ 84,400 per aircraft

D. O. Wood agreed Lockheed would make up the difference (\$104,400 - 84,400 = \$20,000) to P.K.

Therefore, Lockheed owes total fees to TRIAD as follows:

Contract	\$6,200,000
Less negotiating fees	657,000
(8% + 100K + 41K + 20K)	
Net to Gelac	\$5,543,000

If A.K. or some member of his staff had taken the time to inform Temp of the arrangement that had been established with P.K., this problem could have been avoided. This should have been done since Temp was the man that had to face negotiations and do all the price negotiations.

January 22, 1974

LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

TO N. C. Ridings

DEPT. 69-51

ZONE 11

DATE October 8, 1970

Handwritten: DTC, Wm., Bldg. 18

FROM J. A. Davidson

DEPT. 69-51

ZONE

EXT. 7766

SUBJECT: POSSIBLE LOCKHEED AGENT FOR IRAN

Major [redacted], Aide to General [redacted] passed a message that he would like to talk about a possible Lockheed agent for Iran. In a discussion in Tehran on Tuesday, 22 September, Major [redacted] identified his candidate as a Mr. Fouladi, a business associate of General [redacted] and husband of the niece of Princess Fatahi. (Princess Fatahi is a sister of the Shah, and is married to General [redacted]). The Major stated that Mr. Fouladi had talked to General [redacted] on the subject and that the General [redacted] had no objection to Lockheed entering an agreement with Mr. Fouladi's firm.

The Major offered to bring Mr. Fouladi by the Hilton for an introduction. A meeting was arranged for 5 P.M. on the 23rd. Due to an official reception for visiting Pakistani officials, Major Mirhoseini called and excused himself for the afternoon meeting. Mr. Ali Fouladi came to the hotel and picked up Porter Dobbins and me, driving to the home of Hassan Fouladi, the brother who heads up the Fouladi business. Hassan asked to be appointed as Lockheed's consultant for Iran, citing his close relationship with General [redacted] and his family, plus business ties with General [redacted] and the royal family as his principal attributes.

Among other things, the Fouladi's have a monopoly on manufacture of batteries, supplying all government and military requirements, and they manufacture Yokohama tires under license. Hassan Fouladi did disclose that one American company they now represent is the commercial aviation portion of McDonnell Douglas. During this conversation Mr. Fouladi demonstrated his knowledge of what is going on by quoting the number of airplanes involved, the unit price, and total contract amount of our latest contract in Iran.

No commitments were made one way or the other, except that it was agreed we would keep in touch on our next visit to Iran.

There are two likely connotations to be derived from this contact. First, it is possible that Fouladi is simply taking advantage of his family ties, and probable inside information, to try and land what could be a lucrative account. If properly presented, it is likely that General [redacted] would say he had no objection to the idea, assuming it to be Lockheed's prerogative to select any reputable firm.

LOCKHEED-GEORGIA COMPANY
 DIVISION OF LOCKHEED AIRCRAFT CORPORATION
 INTERDEPARTMENTAL COMMUNICATION

TO: N. C. Riddings

DEPT. 69-51

ZONE 11

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LOCKHEED-GEORGIA COMPANY
A DIVISION OF LOCKHEED AIRCRAFT CORPORATION
INTERDEPARTMENTAL COMMUNICATION

N. C. Ridings

DEPT. 69-51

ZONE 11

DATE January 5, 1971

Iran sent to TFR by N.C. Ridings

FROM

J. A. Davidson

DEPT. 69-51

ZONE 11

EXT. 7766

SUBJECT:

MARKETING CONSULTANT, IRAN

A conversation with the Fouladi brothers, set up by Major [redacted] which occurred during a September visit to Tehran, was reported in my IDC of 10/8/70. At that time it was uncertain, as pointed out in my IDC, whether the introduction to the Fouladi family as possible consultants for Lockheed was the idea of Major [redacted] himself or whether it had been instigated with the knowledge and approval of Gen.

While in Tehran during the month of December a number of approaches on behalf of the Fouladi family were made by top level IIAF personnel. In addition, General [redacted] made it very clear that he was aware of the activities of Major [redacted] on behalf of the Fouladi's, and that he approved of these actions. The specific instances which occurred during my visit were as follows:

(1) Following a session with General [redacted] wherein Contract GLX-207 had been the subject of discussion, the General stopped me in the hall outside his office and asked if I knew the Fouladi family, and if any of their representatives had contacted me regarding their representing Lockheed. As it happened, one of the representatives of Fouladi had contacted Don Braund and me the previous night regarding the possibility of obtaining a contract for conversion of 125 IIAF engines to the -15 configuration. I confirmed to General [redacted] that I did know the Fouladi's and had been approached regarding cooperation with them on a specific deal. The General said, "They are nice people and I would very much suggest that you (Lockheed) cooperate with them, not on our C-130 deal, it is closed; however, you have now and will have many other projects." I thanked the General for his advice and told him we certainly appreciated his interest in helping to guide us to a proper selection insofar as a local representative is concerned.

(2) While in General Yazdankhsh's office awaiting the General's return from a staff meeting, Col. Tcheremchi mentioned that the IIAF was considering some practical means of upgrading all engines in their C-130 fleet to the -15. I told Col. Tcheremchi that I had heard of this. He asked if I had heard of it through the Fouladi Company. Upon confirmation that it was through the Fouladi's, the Colonel gave a warm endorsement to the company and suggested that we should cooperate with them in proposing not only modification of their engines, but also the possible sale of eight to twelve new -15 engines. General Yazdankhsh failed to return to his office that day. However, on the following day I did see him and he in turn warmly endorsed the Fouladi's, volunteering the information

COMMITTEE UNDERLYING

that they were very close to General [redacted] do a great deal of business with the IIAF, and are highly respected. In this same conversation there was an oblique criticism of a Mr. Motamed, who was apparently used by LAS in an advisory role in their proposal efforts for an aircraft overhaul setup.

(3) In a separate conversation with General [redacted] the General had high praise for the Fouladi's and their methods of operation, stating that since it would be improper for him to make a direct recommendation on a Lockheed consultant, he would limit his comments to evaluating the company, which he praised, and suggested very pointedly that information gleaned from "other sources" certainly should be considered in our selection. This was a pointed reference to the activities of Major [redacted] in introducing the Fouladi's to Porter Dobbins and me, to D. C. Wood and Max Helzel in October, and to Bob Conley from the Paris office in December.

From my experience in living and working in Iran, I feel we have been given the strongest possible signal from General [redacted]

Whatever the concrete decision regarding a marketing consultant for Iran, we absolutely cannot afford to ignore the Fouladi's in our planning for that area. To do so, I am convinced, would alienate General [redacted] as I am sure he feels that he has made himself clear on the subject; and to ignore his suggestions would be construed as a very serious matter.

JAD:ma

cc: W. W. Cowden
 ✓ D. T. Crockett
 P. F. Dobbins
 C. M. Valentine
 A6.4.1
 A1.9.1

J. A. Davidson

INTERDEPARTMENTAL COMMUNICATION

TO T. P. Morrow DATE May 7, 1971

FROM R. I. Mitchell DEPT/ CIGL E100/ ZONE PLANT/ IAC EXT. 76543

SUBJECT IRANIAN CONSULTANT

As you will recall, I expressed misgivings concerning the prospective consultancy arrangement with J. I. Zand for future marketing efforts in Iran during our various discussions of this subject in February and March. At that time several other prospective consultants, such as Mahvi, Fouladi Brothers, Prince Sharam (Princess Ashraf), had made their availability known, directly or through others. At the same time we were getting reliable signals from General [redacted] and his aide that indicated Zand was not among the "acceptable" consultants as far as the General was concerned. You will recall, this was pointed out to Zand and that he indicated that he would establish a team in the SUNVA organization in order to satisfy General [redacted] and the other key decision makers.

After our arrival in Teheran April 20, Crockett, Conley, Davidson and I met with Jim Zand and were introduced to Housain Zangeneh and Farshed Khalatbari who have joined with Zand in SUNVA. Zangeneh was a native General [redacted] had mentioned earlier as being completely acceptable to him. Zand, Zangeneh and Khalatbari assured us jointly and individually that they had a highly satisfactory working relationship with one another in SUNVA and that each had his unique role to play working with the decision makers.

In our meetings with government and airline officials the following two days, I indicated our tentative arrangements for the assistance of local consultants emphasizing Zangeneh's name with General [redacted] Zand's name with General [redacted] and Khalatbari's name with Mr. [redacted]. Each of these three indicated complete satisfaction with the individual named. In fact, General [redacted] referred to Zangeneh as a very fine, old friend. As a result of these confirmations on our SUNVA people, we had another meeting with Zand and his associates at which time I privately asked both Crockett and Conley to "fish or cut bait". Both decided (Crockett after a little speech to Zand) to go forward with a firm commitment with SUNVA. We, therefore, had a paragraph by paragraph review of the master agreement draft and, with minor changes, agreed to initial draft. Speaking privately to both Crockett and Davidson I asked for and received their assurances that they could work very harmoniously with Zand and his associates.

INTERDEPARTMENTAL COMMUNICATION

TO T. P. Morrow

DEPT /
OACIECON /
ECONPLANN /
TAC

DATE May 7, 1971

FROM R. I. Mitchell

DEPT /
OACIECON /
ECONPLANN /
TAC

EXT. 76543

SUBJECT: IRANIAN CONSULTANT

COMMITTEE CONSIDERING

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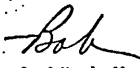
LOCKHEED PRIVATE DATA

IRANIAN CONSULTANT

-3-

May 7, 1971

In any event, I propose that we give Zand an opportunity to prove what he can do and knock off our second guessing. Besides, we have made a firm commitment and I am satisfied it is the right one. Two weeks ago Crockett, Conley and Davidson indicated they were satisfied too.


R. I. Mitchell

Attachment

Telephone conversation with J. J. Zand in Munich
 Wednesday, March 6, 1974.

Zand reported to ACK yesterday that General Brett had sent a telegram to DOD asking which one of the three alternatives he should follow:

1. Should Letter of Intent be turned over to Lockheed?
2. Should Letter of Intent be given to Pentagon to turn over to Lockheed?
3. Should General T negotiate with Schlessinger when he arrives in Washington about the 25th without having been given Letter of Intent to Lockheed.

Zand asked ACK to give instructions to his Washington Office to get a favorable report from the DOD to General Brett instructing him to advise the General to turn over the Letter to Lockheed.

This became superfluous because last night (Tuesday, March 5) General T and General Katami had dinner together, followed by a briefing given to His Majesty by General Carlton who is head of MAT, in the presence of these two generals.

For your information, General Carlton was most sympathetic toward the C-5. This is not true, however, as I have learned from my friends, both of whom claimed there is a clique in the Pentagon who opposed the C-5 and are in favor of remodeling the B747 to be used as a transport and air refueler. However, General Carlton is sympathetic to the C-5, and gave a good report on this. I tell you this because any future negotiations with the Pentagon this might be useful to you.

Next, in light of this knowledge my conclusion drawn must be as follows:

My General friends had a further meeting with His Majesty and they asked him -- they relayed my request that Lockheed be given the Letter now, immediately, so that between now and March 25 when General T will be meeting with Secretary Schlessinger Lockheed will be able to do some valuable spade-work at the DOD. The Shah agrees with this.

- more -

The Letter of Intent was given to Davey Crockett in a sealed envelope, and Davey was not informed of the contents. We got word immediately and checked with Davey to be sure he had the envelope addressed to ACK and told him it was a valuable document which we had been working for the past four months.

Crockett leaves Tehran on Thursday a.m., with a stopover in Europe, arriving in New York on Thursday or Friday. His office should know details.

Having secured the Letter, General T and General Katami both gave me this same message: they have done what we asked them. They have tipped the thing in our favor in the battle of the Pentagon. Now we have the ball. They expect us to do a job.

The fact^{is} that Iran has agreed to furnish the \$160 million

the plan developed by the Air Force requires appropriation by the Congress which is not necessary in their case. That should give us the upper hand and the ability to swing this thing in our favor.

So that this will be used by several aircraft companies, primarily Boeing, to do the necessary modification to make the 747 capable of receiving and loading heavy equipment, and make it capable of carrying bulk fuel and aerial refueling. See letter dictated to ACK secretary yesterday to General _____ from General Brown who is USAF Chief of Staff. Please refer to that letter.

This changes strategy because of request to Cook to go to the Pentagon to influence the decision of General _____ no longer required.

They have \$160 million provided you fellows buy the C-5.

Zand's schedule:

Munich today (Wednesday March 6)	228-821
Kitzbühl on Thursday March 7	Tel: 51953
Skiing on Friday.	
Munich on Saturday/Sunday	228-821
Kitzbühl or Paris on Sunday	
depending on developments	

R. R. Witte

THE LIBRARY OF CONGRESS,
Washington, D.C., June 6, 1975.

HON. FRANK CHURCH,
Subcommittee on Multinational Corporations,
Washington, D.C.

(Attention Vivian Lewis.)

DEAR SENATOR CHURCH: Your request of June 5, 1975, for information on conflict of interest laws requiring legislators and government officials to report involvements in foreign corporations was transferred by the Congressional Research Service to the European Law Division for attention. The request was not actually received in this Office until 10:15 this morning. It was therefore not possible to make a thorough research of the available material.

With the exception of France, no provisions of law have been found for any of the countries in question (Belgium, Germany, and the Netherlands) that specifically limit or control their officials' involvements with foreign corporations. France has a catchall provision that monitors officials and ordinary citizens alike. Belgium and Germany do have regulations dealing with elected and appointed officials' business contacts in general (*see* enclosed reports). In these cases, the laws are phrased broadly enough also to include involvements with foreign corporations. The laws of the Netherlands—also phrased in general terms—apparently deal with the problem only from the bribery angle.

If we may be of any further assistance in this or any other matter, please do not hesitate to call.

Sincerely yours,

EDMUND C. JANN,
Chief.

THE INVOLVEMENT OF GOVERNMENT OFFICIALS AND LEGISLATORS
IN BUSINESS ACTIVITIES: BELGIUM, FRANCE, AND GERMANY

June 1975

Prepared by Members of the Staff
of the European Law Division



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American-British Law Division

European Law Division

Far Eastern Law Division

Hispanic Law Division

Near Eastern and African Law Division

(Prepared by Dr. Virgiliu Stoilcolu, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, June 1975)

BELGIUM

The Law of August 6, 1931,¹ on incompatibilities of members of the Cabinet and Parliament does not include, among the incompatibilities, any restriction regarding involvements with foreign corporations. However, civil service employees may not directly or indirectly engage in any private business without the express approval of the competent Minister.²

The same incompatibility principles apply also to members of the Legislative Council.³

Under Belgian Law it is not possible to determine exactly the limits regarding the freedom of action of civil servants in their private life. As Professor Jacques Dembour puts it, "In effect, there does not exist any text which establishes, in general, what an [Government] agent may be allowed to do or may not do in his private life, under the varying circumstances of time and place and the requirements peculiar to his rank and position . . ."⁴ However, it would seem that the general provision prohibiting civil servants from engaging in private business activities would also take in those connected with foreign corporations.

(Prepared by Tim Cayton, Legal Specialist, European Law Division, Law Library, Library of Congress, June 1975)

FRANCE

The provision of Decree No. 67-78 of January 27, 1967, provide that all direct foreign investments by either public or private persons must be declared to the Minister of the Economy and Finance. This type of investment includes the purchase, establishment, or extension of a business, or any operation having as an objective the acquisition of control over a commercial, industrial, agricultural, financial, or real estate firm.

Articles L.O. 146 through 153 of the Election Code provide certain limitations in the private sphere on deputies of the National Assembly and on Senators, requiring them to disclose information to the Bureau of the Assembly on any business activity that they have at the time of election or that they may acquire later. The Constitutional Council decides doubtful cases.

The Administrative Code in Article 8 of the Ordinance of February 4, 1959, provides that public servants (*fonctionnaires publics*) are prohibited from exercising—as professionals—any gainful private activity. If the spouse of the public servant exercises an activity for private gain, that activity is subject to declaration before the administration.

Article 175-1 of the Criminal Code provides that all public servants shall be subject to criminal sanctions for activities of a nature that compromise their independence in relation to those enterprises under their control, administration, or service.

FEDERAL REPUBLIC OF GERMANY

(Prepared by Dr. Armins Ruis, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, June 1975)

On October 19, 1972, the President of the German Bundestag (Federal Diet) promulgated "Rules of Behavior of Members of the German Bundestag" (*Verhaltensregeln für Mitglieder des Deutschen Bundestages*) which became effective November 1, 1972 (*Bundesgesetzblatt* 1972 I 2065-2066). This Code of Ethics requires that every Member of the Bundestag submit a statement which has to indicate his profession, firms, institutions, or associations to which he renders professional services. Furthermore he must disclose "any remunerative activities in the capacity of members of the board of directors, supervisory boards, administrative boards, or other organs of a corporation, cooperative

¹ *Moniteur belge*, August 14, 1931.

² *Répertoire pratique du droit belge*, Chapter "Fonctionnaire," No. 81 (Bruxelles, 1950).

³ *Droit administratif* 238 (Liège, 1972).

⁴ *Droit administratif* 238 (Liège, 1972).

society or any other legally recognized organization of a business enterprise, or in the capacity of a trustee" (Sec. 1 (2) of the Code of Ethics). Members of the Bundestag belonging to a counseling profession have to indicate the kind of counseling they have been providing. This information is published in the Official Handbook of the German Bundestag (Sec. 1 (3) and (4) of the Code of Ethics).

In addition to the information to be provided under Section 1 of the Code of Ethics, the Presidium of the German Bundestag is to be informed of a series of additional activities remunerative in nature which could possibly create a conflict of interest. The scope and limits of these disclosures are determined every year by the Council of the Bundestag. In particular, every Member must inform the Presidium of the German Bundestag of any contracts he has made with associations, commercial firms, organizations, or individual persons or societies he has counseled or whose interests he has represented. Financial contributions for election campaigns or made to him in furtherance of his political activities have to be separately listed by the Member.

No special mention has been made of foreign corporations, but the wide scope of this regulation would clearly comprise them also.

